



The World Bank

Senegal: DPF2 - Equitable and Resilient Recovery in Senegal (P175293)

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INTERNATIONAL DEVELOPMENT ASSOCIATION

PROGRAM DOCUMENT FOR A

PROPOSED CREDIT

IN THE AMOUNT OF EUR 276.2 MILLION

(US\$300 MILLION EQUIVALENT)

(OF WHICH US\$280 MILLION EQUIVALENT IS A SCALE UP WINDOW SHORTER MATURITY LOAN)

TO THE

REPUBLIC OF SENEGAL

FOR THE

SECOND EQUITABLE AND RESILIENT RECOVERY
DEVELOPMENT POLICY FINANCING

May 16, 2023

Macroeconomics, Trade And Investment Global Practice
Western And Central Africa Region

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Republic of Senegal
GOVERNMENT FISCAL YEAR
January 1 – December 31

CURRENCY EQUIVALENTS
 (Exchange Rate Effective as March 31, 2023)

Currency Unit = CFAF (CFA Franc)

US\$1 = CFAF 603

USD\$1= EUR 0.92

ABBREVIATIONS AND ACRONYMS

ADEPME	Agency for the Development and Support of Small and Medium-sized Enterprises	MTEF	Medium-Term Expenditure Framework
ADIE	State IT Agency	MFB	Ministry of Finance and Budget
AML	International Standards Against Money Laundering	MDCSNET	Ministry of Community Development, National Solidarity and Territorial Equity
ANACMU	Agency for Universal Health Insurance	MRTS	Medium-Term Revenue Strategy
ARMP	Regulatory Agency of Public Market	MPE	Ministry of Petrol and Energy
BCEAO	Central Bank of West African States	MSMEs	Micro, Small and Medium Enterprises
CPF	Country Partnership Framework	NDC	Nationally Determined Contribution
CRSE	Energy Sector Regulatory Commission	PAP	Priority Action Plan
CTF	Terrorism and Proliferation Financing	PA	Prior action
DEEC	Direction of the Environment and Classified Establishments	PFM	Public Finance Management
DGPSN	General Delegation for Social Protection and National Solidarity	PNA	National Supply Pharmacy
DPF	Development Policy Finance	PCI	Policy Coordination Instrument
DPO	Development Policy Operation	PER	Public Expenditure Review
ECF/EFF	Extended Trade facility and Extended Financing Facility	PNBSF	National Family Security Fellowship Program
ETER	Employment, Transformation and Economic Recovery	PPAs	Performance and Policy Actions
FATF	Financial Action Task Force	PPIAF	Public-Private Infrastructure Advisory Facility
FDI	Foreign Direct Investment	PRES	Economic and Social Resilience Program
FONGIP	Priority Investment Guarantee Fund	PSE	Plan Senegal Emergent
FSN	National Solidarity Fund	RSF	Resilience and Sustainability Facility
GCRF	Global Crisis Response Framework	RNU	National Social Registry
GDP	Gross Domestic Product	SBA	Stand-By Arrangement
GNP	Gross National Product	SCF	Standby Credit Facility
GoS	Government of Senegal	SCD	Systematic Country Diagnostic
GTA	Greater Tortue Ahmeyim	SDFP	Sustainable Development Finance Policy
GTP	Gas to Power	SDR	Special Drawing Rights
HFO	Heavy Fuel Oil	SENUM	Senegal Numérique
IBRD	International Bank for Reconstruction and Development	SMEs	Small and Medium Enterprises

ICT	Information and Communications Technology	SUW-SML	Scale Up Window Shorter Maturity Loan
IDA	International Development Association	SOE	State Owned Enterprises
IFC	International Finance Corporation	TA	Technical Assistance
IMF	International Monetary Fund	UHC	Universal Health Coverage
IPF	Investment Project Financing	UNAPPP	National Support Unit for Public-Private Partnerships
Jet	Jobs & Economic Transformation	VAT	Value Added Tax
LCDP	Least Cost Development Plan	WAEMU	West African Economic and Monetary Union
LDP	Letter of Development Policy	WBG	World Bank Group
LFI	Initial Budget Law	WSME	Women-led Small and Medium Enterprise

Regional Vice President:	Ousmane Diagana
Country Director:	Keiko Miwa
Regional Director:	Abebe Adugna Dadi
Practice Manager:	Theo David Thomas
Task Team Leaders:	Daniela Marotta, Felix Oppong, Jan Friedrich Kappen



REPUBLIC OF SENEGAL

SENEGAL: DPF2 - EQUITABLE AND RESILIENT RECOVERY IN SENEGAL

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This operation was prepared by Daniela Marotta (Lead Economist, EAWM1), Felix Oppong (Economist, EAWM1) and Jan Friedrich Kappen (Acting Program Leader and Senior Energy Specialist, IAWE2). The core team consists of Helene Aminatou BA (Economist; EAWM1), Alexandre Henry (Economist; EAWM1), Maria Elkhari (Economist, EAWM1), Kodzovi Senu Abalo (Economist; EAWM1), Gabriela Inchauste (Lead Economist, ELCPV), Daniel Valderrama Gonzalez (EPVGE), German Andres Gallegos Vargas (EPVGE), Aijaz Ahmad (Lead Public Private Partnerships Specialist, IPGPP), Christina Paul (Senior Public Private Partnerships Specialist, IPGPP), Djibrilla Karamoko (Senior Health Specialist, HAWH2), Moussa Dieng (Senior Health Economist, HAWH2), Fatoumata Barry (Health Specialist, HAWH2), Aida Gadiaga (Health Specialist, HAWH2), Fatoumata Baldé (Consultant, HHNGF), Aneliya Muller (Digital Development Specialist, IDDO2), Mame Safietou Djamil Gueye (Senior Social Development Specialist, SAWS4), Mountaga Ndiaye (Senior Procurement Specialist), Fatim Adja Lahonri Diabagate (Consultant), Hamidou Diallo (Consultant, HAWDR), Pamela Mulet (Senior Education Specialist), Dame Seck Thiam (Social Protection Specialist, HAWS2), Abdelaziz Lagnaoui (Lead Environmental Specialist, SAWE1), Mazen Bouri (Lead Financial Sector Specialist, EAWF1), Stephanie Brunelin (Senior Economist, HAWS2), Bernhard Bieri (Consultant, EAWPV), Jana Hughes Malinska (Senior Private Sector Specialist, EAWF1), Miriam Muller (Social Scientist, EAWPV), Petra Valickova (Energy Economist, IAWE2), Alioune Fall (Consultant, IAWE2), Paula Tavares (Senior Private Sector Development Specialist, DECWL), Hamoud Abdel Wedoud Kamil (Senior Education Specialist, HAWE2), Setou Mamadou Diarra (Consultant, HAWE2), Nina Nawel Aoudjhane (consultant) and Helene Bertaud (Lead Counsel, LEGAM), Silvanie Lifongo (Consultant, LEGAM), Adama Diop, (WFACS), Micky O. Ananth (Operations Analyst, EAWM1), Theresa Bampoe (Program Assistant, EAWM1), Coumba Fall Diack (Team Assistant, AWCF1) provided excellent admin and operational support. The team worked under the guidance of Keiko Miwa (Country Director, AWCF1) and Theo David Thomas (Practice Manager, EAWM1) and is grateful for the guidance and support from Edouard Al-Dahdah (Program Leader, EAWDR). The team benefitted from the comments and suggestions from Luc Lecuit (Operations Manager, AWCF1), Franz Dress-Gross (Regional Director, IAWDR), Michel Rogy (Practice manager, AFW IDDO2), Kwawu Mensah Gaba (Practice Manager, IAWE2) and Johan Mistiaen (Practice Manager, EAWPV). The team is grateful to peer reviewers Thomas Bossuroy (Senior Economist, SPL), Peter Siegenthaler (Country Manager, LCCCO) and Christian Amador Gonzales (Senior Economist, LCR-MTI).



SUMMARY OF PROPOSED FINANCING AND PROGRAM

BASIC INFORMATION

Project ID	Programmatic	If programmatic, position in series
P175293	Yes	2nd in a series of 2

Proposed Development Objective(s)

The development objective of this programmatic DPO is to enable equitable and sustainable growth by: (i) increasing resilience and productivity of households, and (ii) strengthening transparent and sustainable use of productive resources, and efficient management of fiscal accounts.

Organizations

Borrower: REPUBLIC OF SENEGAL

Implementing Agency: Ministry of Communication, Telecommunications and the Digital Economy, Ministry of Women, Family and Child Protection

PROJECT FINANCING DATA (US\$, Millions)

SUMMARY

Total Financing	300.00
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DETAILS

International Development Association (IDA)	300.00
IDA Credit	20.00
IDA Shorter Maturity Loan (SML)	280.00

INSTITUTIONAL DATA

Climate Change and Disaster Screening

This operation has been screened for short and long-term climate change and disaster risks

Overall Risk Rating

Substantial



Results

Indicator Name	Baseline	Status November 2022	Target
RI1: Health insurance coverage rate (percent).	49 [2020]	55 [2022]	60 [2024]
RI2: Total number of households registered in the RNU.	250,000 [2020]	540,000 [2022]	1,000,000 [2024]
RI3: Increase in the share of the value of public procurement contracts available for female led firms.	0% [2020]		2% [2024]
RI4: (a) Share of pregnant schoolgirls receiving support to pursue their studies. (b) Share of pregnant schoolgirls beneficiaries of support for school continuation who pursue their studies.	(a) 0% [2020] (b) 0% [2020]	(a) N/A [2022] (b) N/A [2022]	(a) 80% [2024] (b) 70% [2024]
RI5: (a) Cumulative number of fiscal risk assessments published since 2021. (b) Cumulative number of MTDS reports published since 2021.	(a) 0 [2019] (b) 0 [2019]	(a) 2 [2022] (b) 2 [2022]	3 [2024] 3 [2024]
RI6: VAT Revenues (percent of non-oil GDP)	5.7 [2020]	5.9 [2022]	6.3 [2024]
RI7: (a) Number of certified startups. (b) Number of certified and professionally managed startup financing mechanisms.	(a) 0 [2019] (b) 0 [2019]	(a) N/A [2022] (b) N/A [2022]	(a) 50 [2024] (b) 5 [2024]
RI8: Fixed broadband penetration rate (in % of population)	0.94% [2019]	1.35% [2022]	1.8% [2024]
RI9: Share of total generation capacity in each year procured in line with the specific provisions of the Electricity Code's implementation decree and in line with LCDP.	< 10%	N/A	100 percent



RI10: Gas production volume available to the domestic market.	0 standard cubic feet per day [2020]	N/A [2022]	35 million standard cubic feet per day [2025]
RI11: Flaring from the start of commercial oil and gas production ¹ .	Average of 13.84 m ³ /bbl. (regional average) of flare gas per barrel of oil produced	0	< Average of 5.3 m ³ /bbl. of flare gas per barrel of oil produced
RI12: Proportion of PPP transactions reaching commercial close following competitive procurement in accordance with the new PPP legal framework.	0 % [2021]	No transactions [2022]	100% [2024]

¹ Baseline: 13.84 m³ of flare gas per barrel of oil produced is the estimated business as usual flaring intensity on the basis of the regional average (Angola, Cameroon, Congo, Gabon, Nigeria). Target: 5.3 m³/bbl. is the world average in 2021.



IDA PROGRAM DOCUMENT FOR A PROPOSED CREDIT TO THE REPUBLIC OF SENEGAL

1. INTRODUCTION AND COUNTRY CONTEXT

1. **The proposed operation provides US\$300 million equivalent of IDA credit financing to the Government of Senegal (GoS) to support structural reforms for equitable and resilient growth post COVID-19².** Of this US\$300 million equivalent IDA credit financing, US\$280 million equivalent comes from a Scale Up Window Shorter Maturity Loan [SUW-SML] and US\$20 million equivalent from the performance-based allocation [PBA]. This is the second in a series of two programmatic Development Policy Operations (DPOs). The program development objective is to enable equitable and sustainable growth by: (i) increasing resilience and productivity of households; and (ii) strengthening transparent and sustainable use of productive resources and efficient management of fiscal accounts. The program consists of policy reforms that will sustainably and equitably broaden access to healthcare, social assistance, and economic opportunities for women (Pillar 1); improve debt management and equitable tax revenue mobilization, while boosting the growth potential of the private sector, with a focus on access to finance and competitive private sector participation in the digital and energy sectors (Pillar 2).

2. **Structural vulnerabilities, exacerbated by recent shocks, have continued to hold back Senegal's potential for resilient and equitable growth.** Economic growth averaged 5.5 percent between 2015-2021 (2.7 percent in per-capita terms) but did not translate into significant poverty reduction or reduced inequality. While the national poverty rate³ declined from 43 to 37.8 percent between 2011 and 2019, inequality⁴ and vulnerability⁵ remain high and persistent. The shock induced by the COVID-19 pandemic resulted in an increase in poverty to 38.2 percent in 2020, while Russia's invasion of Ukraine exacerbated existing inequalities and exposed deep rooted structural weaknesses. Inadequate and unevenly distributed human capital – which affects the ability of households to cope with exogenous and unanticipated shocks – continues to prevent higher, sustained, and inclusive growth by constraining labor productivity⁶. Senegal's Universal Health Coverage (UHC) program remains financially unsustainable and access to quality healthcare, particularly for the poorest, continues to be undermined by fragmentation within the UHC program and the uneven supply of drugs and qualified practitioners across the country. The social protection system, while well established, needs to be strengthened to boost the equity and efficiency of social spending, particularly relevant in time of crisis. At the same time, the private sector, stifled by insufficient competition and inadequate financing, has been unable to generate enough productive jobs to keep up with high demographic growth⁷.

3. **The legacy of the COVID-19 pandemic and the shocks from Russia's invasion of Ukraine reduced growth in 2022 and increased fiscal pressures and debt levels as the Government revised the 2022 budget**

² Senegal is eligible to receive SUW-SML financing for this operation in FY23 since the operation is aligned with one or more of the four pillars of the Global Crisis Response Framework.

³ The national poverty line was estimated at 333,440.5 CFAF per person and per year in 2018.

⁴ The Gini index in Senegal was of 38.1 in 2018.

⁵ The vulnerability rate in Senegal was estimated at 54.2 percent in 2018, about 1.5 times the poverty rate. A household is considered vulnerable if it has a probability of 50 percent or higher of falling into poverty in the next two years; and a person is vulnerable if he or she lives in a vulnerable household.

⁶ Most recent household data points to stark gender disparities in access to productive activities, which impede equitable economic empowerment: 49 percent of female aged 15-64 are so called NEET, being neither in Employment, Education or Training (versus 20 percent for males).

⁷ Formal employment benefits less than 6 percent of total workers. Source: ENES 2018.



to support social interventions and maintain social cohesion. Real GDP growth is estimated to have decelerated to 4.2 percent in 2022, compared to a pre-shock forecast of 5.5 percent, due to higher food and energy prices, trade disruptions, and greater uncertainty that caused private investment to decline. Inflation reached a multi-decade high of 14.1 percent y/y in November 2022, before easing to 9.4 percent in February 2023. Food prices increased on average by 15 percent in 2022. The sharp increase in food, transport, and energy prices disproportionately hurt the poor and vulnerable.

4. **To maintain social cohesion, the Government revised the 2022 budget to support social interventions and critical sectors.** Energy subsidies increased to 2.7 percent of GDP in the 2022 supplemental budget law (LFR 22), compared to 0.9 percent of GDP in the initial 2022 budget (LFI 22), but are estimated to have reached 4.4 percent of GDP in 2022. These unanticipated spending pressures, combined with an increase in the wage bill by 0.7 percentage points of GDP, and current transfers by 3.2 percentage points of GDP, contributed to an estimated fiscal deficit of 6.7 percent of GDP in 2022. Public sector debt reached 75.1 percent of GDP in 2022, up from 63.6 percent in 2019, driven by the appreciation of the US dollar, the higher fiscal deficit, and tightening of financial conditions. The capacity to absorb additional shocks has thus become very limited.

5. **As part of its efforts to reduce the fiscal deficit from 2023, the Government increased the prices of electricity, diesel and premium fuel, while strengthening social assistance to protect the poor.** On January 6, 2023, the Minister of Energy and Petroleum announced price increases for both electricity and fuel to come into effect by January 7, 2023 (see Annex 6). The price increases aim at reducing the fiscal burden of untargeted and regressive energy subsidies (by 1.4 percent of GDP) and creating fiscal space to invest in infrastructure and social protection programs. To protect the poor in the context of higher electricity and fuel prices, the amount of Senegal's main cash transfer program was increased from FCFA 25,000 to FCFA 35,000 per trimester (from about US\$42 to US\$59), which will increase its budget cost from US\$50 million (0.2 percent of GDP) in 2022 to US\$70 million (around 0.3 percent of GDP) in 2023⁸. Despite efforts to reduce the fiscal financing requirement, subsidies will remain a significant fiscal burden until the gas-to-power strategy is successfully rolled out, and sector governance reforms are implemented.

6. **The Government has committed to gradually phasing out subsidies on three key products (electricity, premium fuel and diesel) by 2025.** On January 7, the Government published a six-step roadmap⁹ (see Annex 6) aimed at eliminating untargeted energy subsidies by 2025 while strengthening the social security system and providing targeted support to the vulnerable. The roadmap includes plans for a communication campaign to garner public opinion in favor of the phase out, in conjunction with “pro-poor” fiscal measures to mitigate the impact on vulnerable households¹⁰.

7. **The reform program supported by this DPF addresses the impact of exogenous shocks while also laying the foundations for equitable and resilient growth¹¹.** The DPF series is aligned with the World Bank's

⁸ Assuming that the government pays the 2023 cash transfers in the current year.

⁹ This roadmap is one of the three prior actions (together with approval of a revised procurement code and measures to contain fiscal costs by reducing energy subsidies) agreed with IMF to conclude the sixth and last review of the PCI/SBA/SCF program in January 2023.

¹⁰ Please refer to Annex 5 for detailed analysis.

¹¹ The reforms supported by this operation address binding constraints to poverty reduction and shared prosperity, as identified in the 2018 Systematic Country Diagnostic (SCD) and recent analytical studies, including the 2021 Country Economic Memorandum (CEM). This operation is supported by ongoing Technical Assistance (TA) and Investment Project Financing (IPF) implemented under the World Bank's FY20-FY24 Country Partnership Framework (CPF).



Global Crisis Response Framework (GCRF)¹² as it supports the strengthening and targeting of adaptive social protection systems, increasing domestic revenue mobilization and access to basic health products and services. It also operationalizes the Jobs and Economic Transformation (JET) framework¹³ which, focusing on both the supply and demand sides of labor markets and gender empowerment, prepares the country for a stronger and more equitable recovery. Finally, this operation supports strengthening a transparent and sustainable use of productive resources, setting the groundwork for a more open, transparent, and competitive private sector participation in key sectors of the economy, including gas and electricity, a critical pre-requisite towards a much-needed structural transformation of the economy.

8. **The macroeconomic policy framework is adequate for the proposed operation.** Growth is expected to rise to 4.7 percent in 2023, and to strengthen over the medium-term and average 7.6 percent in 2024-2025, bolstered by the coming onstream of hydrocarbon production and a revenue-led fiscal consolidation. The Government is committed to gradually returning to the 3 percent fiscal deficit West African Economic and Monetary Union (WAEMU) convergence criterion by 2025, including through the implementation of a Medium-Term Revenue Strategy (MRTS) and expenditure rationalization. Public debt is sustainable and monetary policy and financial oversight remain anchored in a credible monetary union framework.¹⁴ The last International Monetary Fund (IMF) program was successfully concluded in January 2023, and discussions are ongoing with the IMF on a new program.

9. **The overall risk rating of the operation is substantial.** Macroeconomic, political and governance, sector strategy and policy, institutional capacity for implementation and sustainability, and fiduciary risks increased substantially in the wake of the pandemic and remain elevated in the context of continued exogenous shocks linked to the Russia's invasion of Ukraine. These risks remain substantial despite mitigation measures applied both upstream (which include changes to the proposed prior actions (PA) to consider the current political economy context and reform implementation progress) and downstream (including continued dialogue and engagement, as well as technical assistance (TA) to support challenging aspects of reforms design and implementation).

10. **Senegal is also highly vulnerable to climatic and environmental shocks, and these are likely to become more severe over time.** According to ThinkHazard.org, Senegal is most vulnerable to urban and riverine flooding, sea level-rise and coastal erosion, and drought and wildfire¹⁵. Senegal is becoming warmer, and at a much faster pace than other regions in the world. Since the 1950's, mean annual temperature over the country has increased by nearly 2°C, or an average of 0.28°C per decade¹⁶. Senegal is also becoming drier:

¹² The two pillars of the Series are fully aligned to pillars 2, 3 and 4 of the GCRF Framework, which focuses on protecting people and preserving job, strengthening resilience and fiscal institutions. These are linked to the prior actions (PA) of this program as follows: GCRF Pillar 2 (PA3, PA4), Pillar3 (PA1, PA2 and PA5), and Pillar 4 (PA6, PA7, PA8, PA 9 and PA10).

¹³ As illustrated also by the JET analytical framework, in the context of a growing labor force and urbanization, increasing productivity and creating markets are the key preconditions to trigger inclusive economic transformation and growth, together with an effective labor market and macro stability.

¹⁴ Senegal (moderate risk of debt distress) successfully implemented debt-related Performance and Policy actions (PPAs) required under IDA's Sustainable Development Finance Policy (SDFP) in FY21 and FY22 which aimed at improving the management and transparency of debt, as well as fiscal sustainability. The implementation assessment of the FY23 PPAs is under review.

¹⁵ ThinkHazard.org/Senegal. Accessed May 2023.

¹⁶ Of the ten hottest years on record in Senegal, five are in the 2010-19 decade and, with the exception 2012, all years in the 2010-2019 decade are in the top 20 hottest years. Since the 1950's, there was also a significant increase in observed extreme high temperatures in a specific year: about 50 days more with Heat Index above 35°C and about 30 nights more of so-called "Tropical Nights" (>20°C), two indicators of higher discomfort and lower recuperation capacity for human bodies when exposed to high temperatures. World Bank Climate Change Knowledge Portal: Country webpages for Senegal, consulted April 2023. <https://climateknowledgeportal.worldbank.org/country/senegal>



there is a negative trend as to annual rainfall - nearly minus 250mm since the 1950's (or -36.93 mm per decade) amidst a high interannual and interdecadal variability.¹⁷ Meanwhile, there was an increase in the number of consecutive dry days, which, combined with increasing temperatures, indicates higher water stress¹⁸. Sea-level rise is another marker of a changing climate for Senegal, increasing risk of erosion (25 percent of coastline at risk today) and storm surge (50 percent of coastline at risk today)¹⁹. Coastal erosion is caused by many factors, such as coastal development or watercourse modifications, and climate change is increasing this risk. The costs of erosion for Senegal were estimated at US\$537 million in 2017, or 3.3 percent of 2017 GDP, mainly due to loss of land, and its associated value.²⁰

11. Climate change disproportionately affects the poor and women, mainly through decreased agricultural productivity, increased food prices, coastal flooding and erosion, and associated health hazards. Senegal has experienced in 2022 heavier than normal rains which caused flooding in the capital Dakar and many other cities, leading to casualties, destruction of infrastructures and displacement of people. The coastal area (702 km of Atlantic coastline) of Senegal is characterized by low-lying, rapidly expanding, high-population suburbs, high water tables and poorly planned drainage systems, which places much of the coastal population, infrastructure, and ecosystems at risk of flooding and erosion. About 67 percent of the population resides in the urban coastal zone, where 90 percent of the industrial production takes place (including in the Dakar-Thies-Mbour triangle). Climate change is also having a serious impact on climate-sensitive sectors such as agriculture (70 percent of production is rainfed), livestock and fisheries, which together account for 20 percent of GDP and employ most of the workforce.

2. MACROECONOMIC POLICY FRAMEWORK

2.1. RECENT ECONOMIC DEVELOPMENTS

12. GDP growth decelerated to 4.2 percent in 2022 after a strong recovery in 2021. Real GDP growth decelerated from 6.5 percent in 2021 (3.8 percent in per capita terms) to 4.2 percent in 2022 (1.5 percent in per capita terms). On the demand side, the growth deceleration in 2022 compared to the previous year is explained by a drop in exports and private investment (Table 1), resulting from the impact of Russia's invasion of Ukraine and lower industrial production. On the supply side, the industry sector has been strongly affected by the tightening of supply chains, the contraction of refinery and mining with lower gold production, slowdown in agri-food activity due supply constraints, and the closure of the borders with Mali in the first half of 2022. The contribution of the sector to GDP growth eased to 0.3 percentage points (pp) in 2022 compared to 1.8 pp in 2021. This adds to the stalling of the primary sector due to the poor performance in peanuts production (affected by heavy rains) and cotton production (affected by parasite infestations). The contribution of services also decelerated from 3.8 percent in 2021 to 3.2 percent in 2022.

¹⁷ Ibid.

¹⁸ Ibid.

¹⁹ On average, a 1.4 mm per year sea-level rise has been observed along the coasts of Senegal together with an average coastline recession of between 1 and 1.30 m per year.

²⁰ Croitoru, L., JJ. Miranda, and M. Sarraf. 2019. *The Cost of Coastal Zone Degradation in West Africa: Benin, Côte d'Ivoire, Senegal and Togo*. Washington, DC: World Bank.



Table 1. Senegal: Contributions to GDP Growth (2018-2026)

	2018	2019	2020	2021	2022e	2023p	2024p	2025p	2026p
GDP at constant prices (%)	6.2	4.6	1.3	6.5	4.2	4.7	9.9	5.2	3.7
Demand side:									
Private Consumption	3.3	2.7	1.6	2.1	3.2	3.1	3.3	3.2	3.1
Public Consumption	0.5	1.0	0.1	1.8	0.9	0.8	0.8	0.6	0.4
Private investment	3.9	2.6	1.3	5.0	0.9	1.5	2.1	0.9	1.1
Public investment	-0.2	0.4	0.9	0.4	0.7	0.8	0.9	0.9	0.9
Net exports	-1.8	0.5	-6.2	-2.2	-12.2	-2.5	1.3	-1.3	-1.5
Exports, Goods and Services	1.8	3.3	-3.3	4.8	2.0	2.5	6.4	3.1	2.5
Imports, Goods and Services	3.7	2.8	3.0	6.9	14.2	5.0	5.1	4.3	4.0
Change in inventories	0.5	-2.5	3.6	-0.7	10.6	1.0	1.6	0.8	-0.3
Supply side:									
Agriculture	1.2	0.6	1.8	0.1	0.0	0.1	0.2	0.2	0.2
Industry	1.5	1.2	-0.4	1.8	0.3	1.2	4.0	2.4	1.0
Services	2.8	2.2	0.3	3.8	3.2	2.9	4.7	2.0	2.4
Net taxes	0.7	0.6	-0.4	0.8	0.7	0.5	1.1	0.6	0.1

Source: WBG staff estimates and projections, Senegal authorities and IMF.

13. **Headline inflation has increased substantially in 2022, driven by rising food prices.** With global supply disruptions and subsequent rise in prices of imports, inflationary pressures built up strongly and average inflation reached 9.6 percent in 2022. In November 2022, inflation reached a peak of 14.1 percent (y/y), mostly driven by a sharp increase in food prices (+21.4 percent) before gradually decelerating to 9.4 percent in February 2023. Rising food prices are already causing the poorest households to replace higher quality foods with poorer substitutes, likely worsening malnutrition. Inflationary pressures also negatively impact livelihoods and affect nonmonetary dimensions of welfare, with potential long-lasting effects on human capital. As a result, and combined with lower growth in the agriculture sector, the poverty rate (using the low middle income poverty line of US\$3.65 a day) is estimated to have increased from 35.9 percent in 2021 to 36.3 percent in 2022.

14. **External pressures persisted in 2022.** In 2022, the Current Account Deficit (CAD) is estimated to have widened to 19.5 percent of GDP compared to 13.3 percent of GDP in 2021, on the back of a strong deterioration of the trade balance. Imports increased from 15.5 percent in 2021 to 29.1 percent in 2022 due to higher import prices of petroleum and food products and higher services imports associated with the hydrocarbon industry. Exports declined from 22.6 percent in 2021 to 8.1 percent in 2022 due to lower extractive production, especially gold, cement and phosphate and the closure of the borders with Mali in the first half of 2022. The current account deficit was financed mostly by foreign direct investment (FDI) and donor financing. BCEAO's international reserves in December 2022 stood at 4.1 months of imports, down from 5.8 months at end-2021.

15. **The fiscal deficit widened to 6.7 percent in 2022, as the Government increased expenditures to accommodate higher energy subsidies.** The overall fiscal balance registered a deficit of 6.3 percent of GDP in 2021 and increased to 6.7 percent in 2022. This is a substantially higher deficit than the 4.8 percent projected before the Russia's invasion of Ukraine. Total revenues and grants increased to 20.4 percent of GDP in 2022, up from 19.5 percent in 2021. Despite losses estimated at 0.4 percent of GDP from the suspension of customs duties on oil, rice, and sugar to limit food price inflation, tax revenue increased in 2022 driven by higher direct tax revenues (+0.6 percent point of GDP (pp)) on the back of the strong rebound in 2021 and higher taxes on goods and services and taxes on international trade (+0.3 pp respectively),



supported by higher prices and a resilient demand. Grants remained stable at 0.9 percent of GDP in 2022 compared to 2021. The increase in total revenue was offset by higher expenditure (27.1 percent of GDP in 2022 from 25.8 percent of GDP in 2021) mainly due to higher current expenditures, which increased from 16.6 percent of GDP in 2021 to 19.6 percent of GDP in 2022 reflecting (i) a 2 p.p. increase in current transfers, including energy subsidies; (ii) a 0.8 pp increase in wages and salaries reflecting salary increases to all civil servants; and (iii) a 0.3 pp increase in expenditures on goods and services. Capital expenditures have been reduced by 1.7 pp from 9.2 percent of GDP in 2021 to 7.5 percent of GDP in 2022.

16. **To contain the energy bill and maintain fiscal sustainability, the Government announced price increases for both electricity and fuel on January 7, 2023.** Effective on January 1 for postpaid customers and January 7 for prepaid customers, electricity prices increased on average by 16.72 percent. The increases vary depending on the voltage level and category of consumption. Notably, consumers below the first tranche were not affected by the tariff increase, that is, the tariff increase did not affect 1,159,146 lowest-consumption customers (48 percent of Senelec's customers) consuming less than 150kWh per billing period. The prices of diesel and premium gasoline were increased by FCFA 100 per liter (the price of premium gasoline was previously increased by 15 percent in June 2022). With these measures, the Government is expected to reduce the fiscal burden on the 2023 budget by a total of FCFA 258.2 billion (1.4 percent of GDP), of which FCFA 99.7 billion relate to electricity subsidies (0.5 percent of GDP) and FCFA 158.5 billion (0.9 percent of GDP) relate to fuel subsidies (See Annex 6). The savings generated from energy subsidies (1.4 percent of GDP) will allow the expansion of the health coverage by 30 percent - supported by this DPO - and the government roadmap to reduce energy subsidies. The expansion of the UHC would cost about 0.2 percent of GDP in 2023, including 0.1 percent of the GDP related to i) the expansion of the number of beneficiaries of the PNSFB (0.03 percent of GDP) and ii) the increase of the quarterly cash transfer by FCFA 10,000 (0.06 percent of GDP).²¹

17. **Senegal is a member of the WAEMU. Monetary and exchange rate policies are managed by the Central Bank of West African States (BCEAO), which maintains a fixed peg between the CFA Franc and the Euro.** BCEAO's international reserves in December 2022 stood at 4.1 months of imports, down from 5.8 months at end-2021. To counter inflation across WAEMU countries, the BCEAO raised policy interest rates by a cumulative 75 basis points in 2022 (to 2.75 percent for liquidity calls and 4.75 percent for the marginal lending facility). BCEAO will likely need to continue tightening in 2023 in line with other major central banks, and as foreign exchange reserves have declined, and inflation remains well above the target range of 1-3 percent. Delaying fiscal adjustments towards the regional fiscal deficit target of below 3 percent of GDP by 2025 could exacerbate debt sustainability risks, while increasing regional financing needs, reducing FX reserve buffers, and elevating inflationary risks.

²¹ The total cost of the UHC insurance is estimated at 0.7 percent of GDP in 2023 (of which 0.3 percent of GDP for the PNBSF) compared to 2.9 percent of GDP for the energy subsidies.



Table 2. Key Macroeconomic Indicators (2019 – 2026)

	2019	2020	2021	2022e	2023p	2024p	2025p	2026p
Real economy and prices								
GDP (FCFA billions)	13,713	14,119	15,288	17,268	18,633	20,887	22,413	23,707
Real GDP growth	4.6	1.3	6.5	4.2	4.7	9.9	5.2	3.7
GDP Deflator	2.1	1.6	1.6	8.4	3.1	2.0	2.0	2.0
CPI (year-average)	1.0	2.5	2.2	9.6	5.0	3.0	2.0	2.0
(percent of GDP, unless stated otherwise)								
Government financial operations								
Revenues	20.3	20.1	19.5	20.4	20.8	22.1	22.6	22.3
Expenditures	24.2	26.5	25.8	27.1	25.8	25.9	25.5	25.3
Primary balance	-1.9	-4.3	-4.3	-4.5	-2.7	-1.6	-0.7	-0.7
General Government Balance	-3.9	-6.4	-6.3	-6.7	-4.9	-3.9	-3.0	-3.0
General Government Debt	63.6	69.2	73.2	75.1	73.7	69.5	67.4	65.3
Domestic public debt	11.0	14.8	16.1	16.9	19.3	19.5	20.7	21.9
External public debt	52.6	54.3	57.2	58.2	54.4	49.4	46.0	43.4
(percent of GDP, unless stated otherwise)								
External sector								
Current Account Balance	-7.9	-10.9	-12.4	-19.5	-15.3	-7.8	-6.6	-7.0
Balance of goods and services	-14.2	-18.6	-19.7	-26.6	-22.4	-14.3	-12.8	-13.3
Imports, Goods and Services	39.2	39.3	43.1	52.2	49.8	44.8	41.8	40.8
Exports, Goods and Services	24.9	20.7	23.4	25.6	27.3	30.4	29.0	27.5
Income (net)	-2.6	-2.4	-2.3	-2.4	-2.5	-2.5	-2.5	-2.4
Current transfers	8.9	10.2	9.6	9.6	9.6	9.0	8.7	8.7
FDI	4.2	7.1	9.6	8.4	6.2	5.0	4.5	4.5
Terms of Trade	0.3	1.8	-2.3	4.0	...	...	...	...
Other memo items								
GDP nominal in US\$ (millions)	23,405	24,534	27,584	27,744	...	...	...	...
Exchange Rate (per USD, average)	586	575	554	622	...	...	...	...

Source: WBG staff estimates and projections as of March 2023, Senegal authorities and IMF. Notes: 1/ debt level, debt service and government revenue include preliminary data covering the broader public sector. 2/ Domestic debt includes government securities issued in local currency and held by WAEMU residents.

18. **The economic recovery of 2021 has made it possible to revive banking activities.** Broad money grew by 15.6 percent in 2021, buoyed by increasing credit to the economy (+12 percent), which persisted in 2022 Q1 (13.9 percent y-o-y) and 2022 Q4 (18.4 percent through September y-o-y). The stock of nonperforming loans declined as of end-June 2022 to 11.2 percent, while the banking sector's capital adequacy ratio remained comfortable (12 percent). The continued gradual decline of NPLs reflect banks' clearance of legacy arrears from before COVID-19 pandemic. There are several sources of vulnerabilities in the financial sector, especially when considering that banks benefited from a very supportive environment in recent years with buoyant economic growth and easy access to central bank liquidity. The increasing costs of imports and the increased inflation due to the Russia's invasion of Ukraine is worsening these vulnerabilities. One area of concern is credit concentration ratios: the largest five exposures represented close to 80 percent of the capital as of June 2022. The country's narrow economic base and the preference of banks for large companies and Government securities vs Micro, Small and Medium Enterprises (MSMEs) explain these concentration ratios. Another concern is the placement of Senegal by the Financial Action Task Force (FATF) on the grey



list in February 2021, indicating that the country doesn't fully comply with international standards against money laundering (AML), and terrorism and proliferation financing (CFT). The Government has developed a roadmap to address the deficiencies identified by FATF and minimize vulnerabilities of the financial sector to risks related to AML/CFT, but implementation has been lagging and needs to be stepped up.

2.2. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

19. **Economic activity is projected to be strong in the medium term, starting in 2024, supported by hydrocarbons and the services sector.** Economic growth is projected at 4.7 percent in 2023, down from a previously projected 8 percent, reflecting (i) the negative impact of tightening of WAEMU monetary policy on demand; ii) slower growth in main trading partners; and (iii) delays in the start of hydrocarbon production to 2024. Growth in the non-hydrocarbon sector will be driven by the rebound in the secondary sector and a stronger dynamism of the tertiary sector. The secondary sector will benefit from i) the normalization of international commodity prices, which weighted significantly on the growth of the sector in 2022; and ii) the finalization of projects envisaged in the Emerging Senegal Plan included in the Priority Action Plan (PAP) 2A (2019-2023) in the extractive, agro-business, and pharmaceutical industries. Services are projected to expand by 5.8 percent in 2023 mainly supported by the dynamism of transport with the Regional Train Express and the Bus Rapid Transit. Growth is projected to pick up to close to 10 percent in 2024, driven by a strong industrial production with the onset of hydrocarbon production and positive spillovers into tertiary sectors. Real GDP growth is projected to average 4.4 percent over the period 2025-2026. Non-hydrocarbon growth is expected to average 4.7 percent over the medium term, supported by the development of mining activities with increasing production of gold, zircon, and phosphate, and the development of the special economic zones. The agriculture sector should also support growth in the medium term, benefitting from state support to improve productivity. Hydrocarbon growth is projected to reach 15.7 percent in 2025 before declining (-13.7 percent) in 2026 as oil production volumes are expected to decrease in the medium term.

20. **The fiscal deficit is expected to decline to meet the WAEMU 3 percent of GDP target by 2025.** In 2023, the fiscal deficit is projected to decrease to 4.9 percent, down from 6.7 percent in 2022. On the revenue side, tax revenue will increase supported tax expenditure rationalization through an improved targeting of VAT exemptions, as supported by this DPF series, and tax revenue administration measures contained in the Medium-Term Revenue Strategy, such as the digitalization of the tax system, the introduction of a tax control monitoring application and the expansion of the tax base with the results of the national survey on taxable properties in 2023. Non-tax revenue could decline by 0.2pp due to the non-renewal of an exceptional revenue (sale of land by Caisse des Dépôts et Consignations), while grants are projected to remain stable. Expenditures are projected to decrease from 27.1 percent in 2022 to 25.8 percent in 2023 mainly due to the rationalization of energy subsidies. The projected fiscal deficit of 4.9 percent of GDP will be mainly financed by the issuance of bonds in the regional market and grants.



Table 3. Key Fiscal Indicators (2019 – 2026)

	2019	2020	2021	2022e	2023p	2024p	2025p	2026p
	(Percent of GDP, unless stated otherwise)							
Total Revenues and Grants	20.3	20.1	19.5	20.4	20.8	22.0	22.5	22.4
Tax Revenues	17.6	16.8	17.0	18.1	19.0	19.1	19.5	19.9
Direct Taxes	5.5	5.4	5.6	6.2	6.5	6.7	6.9	7.1
Taxes on Goods and Services	9.1	8.7	8.5	8.8	9.0	9.0	9.3	9.5
Taxes on International Trade	2.7	2.4	2.6	2.9	3.2	3.1	3.0	3.0
Other Taxes	0.3	0.2	0.3	0.3	0.3	0.3	0.3	0.3
Non-tax revenue	1.1	1.1	1.7	1.4	0.8	0.7	0.7	0.7
Hydrocarbon revenue						1.2	1.4	0.8
Grants	1.6	2.3	0.9	0.9	1.0	1.0	1.0	1.0
Expenditures	24.2	26.5	25.8	27.1	25.8	25.9	25.5	25.3
Current Expenditures	15.7	17.2	16.6	19.6	18.0	16.6	15.7	15.6
Wages and Compensation	5.3	5.7	5.9	6.7	6.9	6.9	6.9	7.0
Goods and Services	2.1	2.0	2.3	2.7	2.6	2.6	2.6	2.7
Interest Payments	1.9	2.1	2.0	2.2	2.2	2.3	2.3	2.3
Current Transfers	4.9	6.2	5.1	7.1	5.3	3.7	2.7	2.3
of which: subsidies	2.2	3.0	1.5	4.4	2.9	1.7	0.0	0.0
Other Expenditures	1.5	1.3	1.2	1.0	1.0	1.2	1.2	1.3
Capital Expenditures	8.5	9.3	9.2	7.5	7.7	9.3	9.9	9.7
Primary Balance	-1.9	-4.3	-4.3	-4.5	-2.8	-1.7	-0.8	-0.6
Overall Balance	-3.9	-6.4	-6.3	-6.7	-4.9	-3.9	-3.0	-2.9
Government Financing	3.9	6.4	6.3	6.7	4.9	3.9	3.0	2.9
Net acquisition of financial assets	-2.1	1.2	2.6	-0.9	0.0	-1.0	-0.2	0.0
Net incurrence of liabilities	1.8	7.4	8.4	5.8	4.9	2.9	2.8	2.9
Domestic	-1.2	4.0	2.9	1.5	2.0	0.5	0.5	0.6
Foreign	3.0	3.5	5.6	4.3	2.9	2.4	2.3	2.3
DSSI		0.2	0.5					

Source: WBG staff estimates and projections as of March 2023, Senegal authorities and IMF

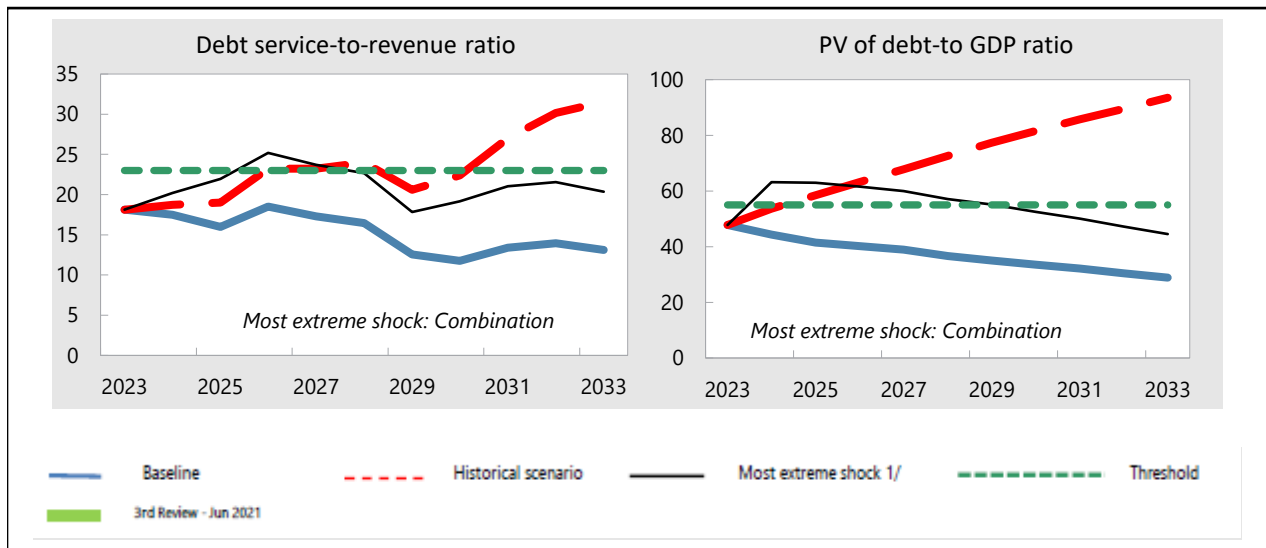
21. Over the medium term, the medium-term revenue strategy, the tax policy reforms under the new proposed IMF program and the onset of hydrocarbon production, which is expected to bring revenues estimated at about 1 percent of GDP per year, will support on the revenue side the convergence to the 3 percent WAEMU target by 2025. On the expenditure side, the phasing out of energy subsidies will be critical to the credibility of the macroeconomic framework as energy subsidies expose the budget to significant fiscal risks and could crowd out other priority spending or lead to higher fiscal deficits. The government's commitment to eliminate energy subsidies is anchored in the published roadmap, agreed with the IMF, that aims to gradually eliminate energy subsidies while protecting the vulnerable groups through cash transfers. The gas to power project will also help reduce the cost of energy and support the energy subsidies reform. A clear communication plan will help minimize the political risks associated with implementing such reforms, although it is important to acknowledge that the upcoming presidential elections in 2024 still pose a significant implementation risk.

22. According to the joint World Bank-IMF Debt Sustainability Analysis (DSA) of June 2022, public debt remains at moderate risk of external and overall debt distress, with limited scope to absorb shocks. Public



Sector Debt is projected to reach 75.1 percent of GDP in 2022²² up from 73.3 percent of GDP in 2021. External debt indicators mostly remain below their thresholds under the baseline scenario. However, under sensitivity analyses, all four external debt indicators breach their threshold, including from slower external demand or a significant downgrade in the expected output of the hydrocarbon sector. For overall public debt, the present value of debt-to-GDP remains below its threshold under the baseline scenario, and debt service is projected to remain substantial, averaging about 28 percent of total revenues and grants over the next five years. Public sector debt is projected to decline to under 60 percent of GDP over the medium term based on fiscal consolidation and growth. Stress tests indicate that Senegal is most vulnerable to a growth shock, which underscores the importance of reforms to strengthen Senegal’s resilience by building fiscal space and enhance its medium-term growth potential. Senegal is also facing a growing level of state-owned enterprises (SOE) debt, combined with elevated deficits from the COVID-19 pandemic and the Russia’s invasion of Ukraine, and tightening financial conditions in the regional market, likely leading to higher debt levels.

Figure 1. Debt indicators for March 2023 draft Debt Sustainability Analysis



Source: World Bank-IMF DSA (March 2023). Notes: 1/ The extreme shock is a one-time depreciation. /2 The extreme shock is 1 standard deviation negative shock to export growth.

23. **Hydrocarbon receipts and increased regional trade should significantly narrow the current account deficit in the medium term.** The current account deficit is projected to decline, although remaining significant, to 15.3 percent in 2023 due to lower import prices and an increase of exports driven by a stronger industrial production. In the medium term, once hydrocarbon production is commissioned, the pressure on the current account will significantly ease thanks to hydrocarbon exports and lower imports in the extractive industry. The current account deficit is therefore estimated to narrow to 7 percent by 2026. The current account deficit will be financed by FDI and a mix of concessional financing and commercial borrowing (Table 4). The extension of the zone of instability security from the Sahel, the continuation of economic sanctions vis-à-vis neighboring countries, particularly Mali (the main trading partner of Senegal), a more pronounced slowdown in global economic growth, or the delay in the exploitation of hydrocarbons represent risks for the improvement of the trade balance.

²² The central government debt is estimated at 67.5 percent of GDP in 2022.



Table 4. BOP financing requirements (2019-2026, in percentage of GDP)

	2019	2020	2021	2022e	2023p	2024p	2025p	2026p
1. Total Financing requirements	13.9	19.0	19.8	25.1	21.0	14.9	13.2	14.4
Current account balance	7.9	10.9	12.4	19.5	15.3	7.8	6.6	7.0
Debt government amortization	4.7	5.8	6.8	5.6	5.7	7.1	6.6	7.4
O/W Debt Amortization (excl. regional market securities)	1.2	2.2	1.7	2.7	4.4	2.0	1.6	2.4
O/W Repayment to the Fund	-0.1	0.0	0.0	0.0	0.2	0.5	0.7	0.8
Errors and Omissions	1.4	2.3	0.7	0.0	0.0	0.0	0.0	0.0
2. Financing Sources	12.4	15.8	18.6	22	18	15	13	14
FDI and portfolio investments (net)	3.4	8.8	13.1	10.0	8.5	8.1	5.9	7.0
Direct investment	4.2	7.1	9.7	8.3	6.3	5.1	4.5	4.4
Portfolio investment	-0.8	1.7	3.5	1.7	2.2	3.0	1.4	2.6
Private (net)	-2.6	-4.6	-2.9	1.3	1.4	-3.8	-2.6	-2.4
Program and project loans	5.7	5.0	3.8	5.3	4.0	2.7	3.0	3.0
Use of reserves	5.9	6.5	4.5	5.7	4.0	7.6	6.7	6.6
3. Total Financing Needs	1.5	3.3	1.2	2.8	3.0	0.4	0.2	0.2
Expected financing from donors	0.0	2.8	1.2	1.7	2.0	0.1	0.0	0.0
Budget support (grants + loans) excluding World Bank, IMF and AfDB	0.0	2.8	0.6	0.0	1.1	0.1	0.0	0.0
IMF	0.0	0.0	0.7	1.4	0.7	0.0	0.0	0.0
African Development Bank	0.0	0.0	0.0	0.3	0.3	0.0	0.0	0.0
Residual Financing Gap	1.5	0.4	0.0	1.1	1.0	0.3	0.2	0.2
World Bank budget support	1.5	0.4	0.0	1.1	1.0	0.3	0.2	0.2

Source: Senegal authorities; IMF and WBG staff estimates and projections as of March 2023.

24. **Debt vulnerabilities remain elevated in a context of tightening regional and international financial conditions.** In a context of already limited capacity to absorb additional shocks the materialization of risks stemming from political tensions and the tightening of global financial conditions would threaten Senegal’s ability to withstand a heightened risk of debt distress. Senegal’s public debt is mostly external (73 percent in 2022), which makes the country vulnerable to exchange rate risks, as was observed in 2022 with the depreciation of the FCFA against the US\$. The resulting increase in the cost of external debt service amplified the country’s vulnerability to exports and revenues shocks, as the two liquidity indicators – external debt service to exports ratio and the external debt service to revenues ratio- became closer to their respective risk thresholds. About 53.3 percent of the government external debt in 2022 was denominated in Euros, which partly mitigated the increase in debt service payments. Senegal is facing a tightening of financial conditions both in the regional and international financial markets, reducing the government options to cover its financing needs and making them more expensive. Tighter financing conditions will require the authorities to seek more concessional borrowing from development and bilateral partners.

25. **The macroeconomic outlook is subject to significant downside risks.** Although the completion rate of the oil and gas Sangomar and Greater Tortue Ahmeyim (GTA) phase 1 offshore projects is at about 90 percent, further delays or weaker than expected production represent significant risks to the outlook. Additional and prolonged pressures would stem from the protraction of the Russia’s invasion of Ukraine, lower global growth, and tightening of financial markets. These risks would likely introduce major uncertainties to growth and external prospects for Senegal. The full impact of the risks is likely to result in slower economic growth, higher trade deficits, lower remittances, and pressures to finance the current account deficit (see Table 5). Economic slowdown and rising inflation in Senegal’s major trading partners could reduce external demand for Senegal’s exports and further widen the current account deficit. Senegal



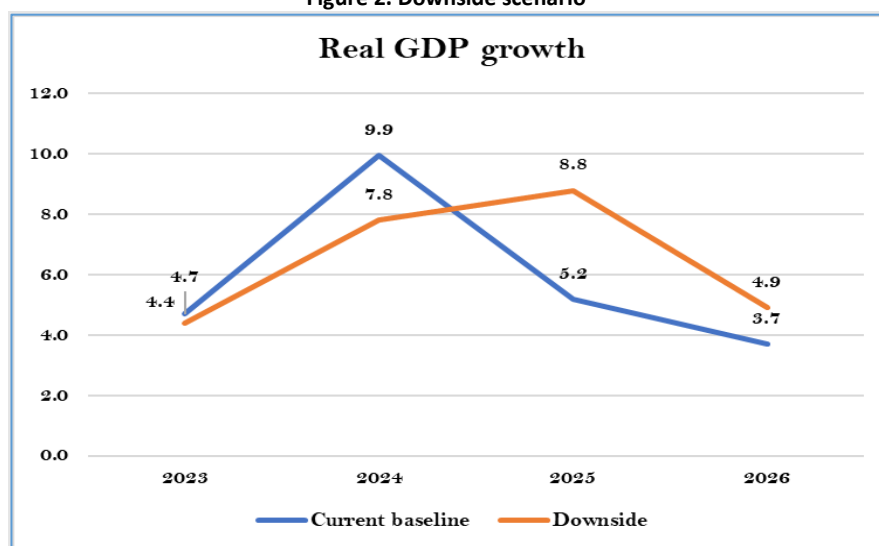
is also exposed to coastal erosion and climate shocks (floods, droughts, and associated health hazards), which could affect key sectors such as tourism and reduce agricultural productivity. Security concerns, such as spillovers from the Sahel, could have repercussions on investment and tourism.

Table 5. Comparison Baseline and downside scenario

	2023	2024	2025	2026	2023	2024	2025	2026
	Current baseline				Downside*			
Real GDP growth	4.7	9.9	5.2	3.7	4.4	7.8	8.8	4.9
Inflation	5.0	3.0	2.0	2.0	6.5	4.0	3.0	2.0
Total revenue	20.8	22.1	22.6	22.3	20.6	21.1	22.6	22.9
Total expenditure	25.8	25.9	25.5	25.3	27.1	26.7	25.8	25.7
Budget balance	-4.9	-3.9	-3.0	-3.0	-6.5	-5.6	-3.2	-2.8
Current account balance	-15.3	-7.8	-6.6	-7.0	-16.8	-12.4	-8.0	-6.9
Public debt	73.7	69.5	67.4	65.3	74.5	72.8	68.5	66.4

*The downside scenario assumes a delay of 6 months of hydrocarbon production in 2024, a prolonged Russia’s invasion of Ukraine, weaker external demand, fiscal slippages in the run up to the presidential elections and further tightening of the financial conditions.

Figure 2. Downside scenario*



26. **The macroeconomic policy framework is adequate for the proposed operation.** Growth recovered in 2021, driven by a strong return of private consumption and investment, and is expected to strengthen over the medium-term, despite the temporary shock from Russia’s invasion of Ukraine and its impact in 2022, bolstered by the coming onstream of gas production. The Government is committed to gradually returning to the 3 percent fiscal deficit West African Economic and Monetary Union (WAEMU) convergence criterion by 2025, including through the implementation of a Medium-Term Revenue Strategy and expenditure rationalization. Public debt is sustainable and monetary policy remains prudent and anchored in a credible monetary union framework. The macroeconomic policy framework is anchored in the recently concluded (January 2023) IMF Policy Coordination Instrument (PCI) program and Stand-By Arrangement (SBA) and Standby Credit Facility (SCF).



2.3. IMF RELATIONS

27. **Between March 8th and 14th, 2023 the IMF launched discussions with the Government on a new IMF program under an Extended Trade facility and Extended Financing Facility (ECF/EFF) for a period of three years. In parallel, Senegal is considered eligible for the Resilience and Sustainability Facility (RSF).** The new IMF program focuses on three key pillars to: (i) build fiscal resilience by putting public debt on a firmly downward trajectory; (ii) strengthen governance; and (iii) foster a more inclusive and private sector-led growth. The RSF will likely focus on decarbonization and climate change mitigation measures, the institutional framework and investments related to climate change. These new programs come after completion on January 9th, 2023, of the IMF Board Sixth Review under the PCI and the Third Reviews under the SBA and the Arrangement under the SCF.²³ At the time of the review (November 2022), program performance was assessed to be broadly satisfactory. All quantitative performance criteria and two out of three indicative targets were met. Three out of nine structural benchmarks were implemented on time. Out of the remaining ones, the roadmap to eliminate energy subsidies has been published in January 2023. The three prior actions for the IMF program were also met by the time of the completion of the review. These include: (i) an increase in the price of diesel and gasoline (respectively 11 percent and 17 percent) and of electricity (17 percent) to contain the fiscal impact of energy subsidies; (ii) the approval of a revised procurement code to strengthen transparency and governance in public procurement; and (iii) the approval of the energy road map to eliminate energy subsidies on three key products (electricity, premium fuel and diesel) by 2025, which include a communication phase and measures to support vulnerable households (see annex 6 for details).

3. GOVERNMENT PROGRAM

28. **Since 2014, the Plan Senegal Emergent (PSE) is the overarching strategic framework for the long-term economic and social development of the country.** The PSE, adopted in 2014, aims at achieving an emerging market status for Senegal by 2035 and has three strategic axes: (i) transforming the structure of the economy to support strong and sustainable growth; (ii) expanding access to social services and social protection and preserving the conditions for sustainable development; and (iii) responding to the requirements of good governance, through institutional strengthening and promoting peace, security, and African integration. Despite important progress of the first implementation phase 2014-2018 (PAP1), an evaluation of the Plan pointed out constrained competitiveness and structural transformation due to persisting structural weaknesses.

29. **The PSE is now in its second implementation phase 2019-2023 (PAP2) with key measures spanning from export promotion, infrastructure expansion, and sustainable management of natural resources to improved business environment, public administration, and social services.** In response to the COVID-19 crisis, the action plan PAP 2 was revised to reflect a stronger emphasis on building systemic resilience via endogenous, national private sector-led growth drivers, an early warning system, and a dynamic digital economy. Related climate adaptation and mitigation considerations will support delivery of the country's recently submitted first Nationally Determined Contribution (NDC).²⁴ These measures built on the Economic

²³ Senegal was under a three-year Policy Coordination Instrument (PCI) (January 2020-December 2022) and an 18-month Stand-by Arrangement / Stand-by Credit Facility (SBA/SCF) program (June 2021-December 2022).

²⁴ Sénégal's first NDC (Gouvernement du Sénégal (2020). *Contribution déterminée au niveau national du Sénégal*, accessible at <https://unfccc.int/sites/default/files/NDC/2022-06/CDNSenegal%20approuv%C3%A9e-pdf-.pdf>



and Social Resilience Program (PRES) implemented in 2020 to combat the COVID-19 crisis, which focused on saving lives, protecting livelihoods, and supporting the post-pandemic recovery²⁵.

4. PROPOSED OPERATION

4.1. LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

30. **The proposed operation is fully consistent with the second PAP2 for 2019-2023 of the PSE and its adjusted and accelerated version (PAP 2A), which aims at generating the conditions for Senegal to become an inclusive emerging economy by 2035.** The development objective of the proposed program is to enable equitable growth and sustainably increase by: (i) increasing resilience and productivity of households; and (ii) strengthening transparent and sustainable use of productive resources and efficient management of fiscal accounts. The operation rests upon two complementary pillars aiming to strengthen labor supply (productive and resilient human capital – Pillar 1 of PSE) and a transparent and sustainable use of productive resources (Pillar 2). It adds to the framework an emphasis on resilience, including by supporting prudent debt and fiscal risk management, and on fostering the necessary conditions for private sector led, equitable growth.

31. **The proposed DPO series directly builds upon lessons learned from the previous Multi-Sectoral Structural Reforms DPO series,** spanning from 2016 and 2020 – and related supplemental financing – aimed at boosting competitiveness by means of building the foundations of a dynamic, innovative, and inclusive economy. The changes made to the current program aimed at incorporating lessons learned in designing operations that involve continued dialogue in important reforms areas, where ownership of the reform program might be hindered by significant political economy challenges. Recent evaluation of World Bank engagement under previous DPO series points towards severe risks to sustainability of development outcomes, notably in the energy and Information and Communications Technology (ICT) sectors. In the electricity sector, reforms have a long history of not achieving their objectives, and their leadership has often lacked a sense of urgency. The experience from previous operations underscores the need to balance a realistic, more focused but substantive reform agenda with flexibility to adapt to the political decision making in the country, and to ensure Government’s ownership. In the ICT sector, the reform agenda has historically been affected by active stakeholder involvement in this growing and highly profitable sector, which have been able to delay or dilute reform attempts in the past. Maintaining, overseeing, and guaranteeing open and non-discriminatory access to the fiber optic network to mobile network operators (MNOs) and internet service providers is highly depends on Digital Senegal (*Senegal Numérique*, SENUM) governance and implementation capacity. Shortcomings regarding the transparency of tendering processes affect investor’s confidence, undermining private sector investment and telecom operator’s prices.

32. **In addition, this series has benefited from extensive mid-term evaluation, building from lessons learned from implementation of the first operation.** The proposed operation will focus on reforms that are mature for the current political economy context and that the Government is committed to implement. The revised implementing decrees to the Electricity and Gas Codes, including the most critical decree on the procedures for the award of contracts and licenses in the electricity sector, show significant improvements regarding the most critical recommendations made by the World Bank’s legal advisors back in November

²⁵ The main vehicle for the PRES was a dedicated solidarity fund at the BCEAO, named FORCE-COVID-19 (7 percent of GDP), geared towards upgrading the health system and containing the economic fallout of the pandemic, including by providing targeted support to vulnerable households and firms. It featured four pillars: (i) health sector support (including supply of medical and pharmaceutical products); (ii) social resilience; (iii) private sector and jobs; and (iv) supply of food and fuel. The program was financed by a mix of donor contributions, the central government budget, and voluntary private sector donations.



2021, including a more restrictive definition and processing of unsolicited proposals and direct awards, and a stronger role of the regulator. While the provisions of the new implementing decrees remain the second best possible solution to remedy the governance-related shortcomings of the Electricity Code (with the first best being the incorporation of lacking principles of good governance and transparency through a full revision of the Electricity Code itself), it is an important step in the right direction which could eventually lead to revision of the Code in the medium term, after its implementation has been assessed.

4.2. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

33. The PDO of the proposed program is to enable equitable and sustainable growth by: (i) increasing resilience and productivity of households and (ii) strengthening the transparent and sustainable use of productive resources and the efficient management of fiscal accounts.

Pillar 1: Increasing resilience and productivity of households

34. **Pillar 1 of this DPF series supports policies and institutional reforms to boost the resilience and productivity of human capital for households and individuals.** In the past decade, Senegal has established the foundations of a well-functioning social protection system. Two pillars of the national social protection system were incrementally established: a National Social Registry (*Registre National Unique*, RNU) covering 30 percent of the population (or 550,000 households) and a large cash transfer program (*Programme National de Bourses de Sécurité Familiale*, PNBSF) covering 18 percent of the population (or 300,000 households). Moreover, the GoS has designed an ambitious UHC program, combining free access to healthcare for eligible segments of the population and a subsidized community insurance scheme.

35. **Reforms covered by PA1 and PA2 under Pillar 1 will institutionalize and consolidate Senegal's core social programs** by (i) anchoring them into law (the RNU in DPO1- the first operation of the series- and the cash transfer and UHC programs in DPO2- the second and last operation of the series, i.e. the current operation); (ii) supporting difficult but critical legal actions to ensure the financial and technical viability of these programs (a unique information and budget management system for the UHC program in DPO1 and the re-certification of cash transfer beneficiaries in DPO2 through the clarification of program duration, definition of eligibility criteria and entry/exit strategy of beneficiaries in the decree of creation of the PNBSF); (iii) expanding the reach of social programs (by mandating the use of the RNU for targeting social spending across sectors in DPO1 and improving availability of essential medicines and medical supplies across the country in DPO2) and (iv) clarifying the roles and mandates of key agencies within the social protection sector by revising the organization and operating rules of the General Delegation for Social Protection and National Solidarity (*Délégation Générale à La Protection Sociale et à La Solidarité Nationale*, DGPSN).

36. **Pillar 1 also supports legal reforms to enable women to access new economic opportunities (PA3) and accumulate greater human capital through education (PA4).** These reforms will contribute to enable women-led firms gain better access to public procurement contracts, thereby enhancing their economic potential. The program also supports reforms to remove key constraints to girls' education, such as new regulations to strengthen the right of girls to attend and reintegrate them into school during and after pregnancy. Those structural reforms will benefit all women and girls, improving their agency and decreasing their school dropout rates due to early pregnancies.



PA1: Increase access to basic health products and services.

37. **Rationale. The COVID-19 pandemic has shown the importance of a functioning health system with a broad reach.** The UHC program was launched in 2013, and an autonomous agency, the Agency for Universal Health Insurance (*Agence pour la Couverture Maladie Universelle, ANACMU*), was established to implement the program in 2015. The Government aims to expand the coverage of health services to the entire Senegalese population, and ANACMU currently oversees a social health insurance scheme dedicated to including members of the informal sector and a non-contributory free healthcare scheme: (i) vulnerable groups such as pregnant women, the elderly, and children under the age of five and (ii) the poorest households that are beneficiaries of the PNBSF Program. The UHC program relies on a well-developed network of community-based health insurance schemes at the commune level, with a mandate to facilitate the enrollment of beneficiaries and to subsidize direct payment in case of illness of their members²⁶. Important challenges remain, including weaknesses in the management capacity of the UHC program, the voluntary enrollment process, and the risk-pooling mechanisms that jeopardizes the financial sustainability of the program. The GoS decided that some of these challenges are best addressed in the Single Social Security Code being prepared under the leadership of the Ministry of Labor, which will have an important focus on the UHC program and its functioning.

38. **The proposed operation supports actions aimed at addressing remaining operational bottlenecks that impede an effective and sustainable functioning of the program.** These include: (i) the frequent stockouts of essential medicines and medical supplies and (ii) the lack of coverage of PNBSF beneficiaries through the UHC program due to the administrative, financial and operational fragmentation of the program, including the lack of proper identification of eligible households and the high costs of enrolling households²⁷. Senegal continues to experience frequent stockout of essential medicines and medical supplies due to the lack of autonomy of the National Supply Pharmacy (*Pharmacie Nationale d'Approvisionnement, PNA*) to procure basic health products on the international market. A change in legal status of the PNA would help reduce pharmaceutical stockouts by facilitating access to purchasing drugs in international markets.

39. **A recent study²⁸ has shown that in three regions of the country (Diourbel, Thies and Tambacounda), the community-based health insurance schemes did not sufficiently protect the poor; there have been no improvements on access to care, no reductions of out-of-pocket expenditures and no protection from catastrophic health expenditures.** One of the major findings in this study was that community-based health insurance companies would not finalize the registration of certain PNBSF beneficiaries because of payment delays of subsidies by the Government²⁹. The decree supported by this operation would provide more leverage for ANACMU to reorganize its financial resources and to negotiate (through management agreements) with the community-based health insurance companies to ensure

²⁶ From 2017 to 2021, 676 community-based health insurance schemes have been established and strengthened. The ANACMU supported the implementation of the free health care initiatives and the deployment of the Integrated Management Information System of the CMU in the country. The national coverage rate of the CMU is 55 percent in 2022. At the community level, nearly 4.0 million beneficiaries are enrolled in community-based health insurance schemes out of an expected 7.6 million.

²⁷ PNBSF beneficiaries are covered at 100 percent for medical services and prescription medications at a fixed price of 9,000 FCFA per person. This is costing the GoS trillions of FCFA and therefore, it is critical to ensure that eligibility requirements for the beneficiaries are well-defined prior to enrolling in the UHC program.

²⁸ Ly MS, Faye A, Ba MF. Impact of community-based health insurance on healthcare utilisation and out-of-pocket expenditures for the poor in Senegal. *BMJ Open* 2022;12:e063035. doi:10.1136/bmjopen-2022-063035.

²⁹ The contribution of ANACMU to cover PNBSF beneficiaries' subsidies is currently 24.1 trillion FCFA, while ANACMU cannot exceed five billion FCFA per year to cover this group.



proper coverage of the poor population. At the same time, there is no harmonized management and payment of PNBSF beneficiaries' healthcare. In some localities, the ANACMU manages the enrollment, invoicing, and payment to health facilities, while in other localities this would be handled by the community-based health insurance schemes. This creates challenges, as there is no proper accounting of the level of enrollment of this group, or the proportion of funds used for their healthcare³⁰. Without proper targeting of eligible households, it would be more difficult for the GoS to adequately finance the UHC program and to reach the national target set for UHC.

40. **Substance of the PA and progress in the reform.** PA1 will address existing bottlenecks to ensure a more effective and efficient health system to progress towards UHC, namely: (i) stockout of essential medicines, which will be reduced by allowing access of the PNA to the international markets and (ii) lack of coverage of PNBSF beneficiaries. The latter will result in a reduction of: (a) exclusion errors, which will ensure the coverage of all PNBSF beneficiaries by community-based health insurance companies through management agreements; (ii) inclusion errors, which will ensure improved interoperability between the RNU and ANACMU data systems; and (iii) implementation challenges by ensuring a standard and harmonized payment process to ensure community-based health insurance companies provide adequate coverage to the poor. These reforms will contribute to greater efficiency of public expenditures in the sector by improving the GoS's capacity to track financing needs and funding flows toward healthcare facilities, rationalize the enrollment process into the UHC program and control costs, and procure drugs and medical supplies at lower costs on the international market. They are closely linked with the reform area on social protection, as beneficiaries of the flagship safety net program are automatically enrolled in the health insurance scheme under the UHC program. They will also contribute to the objectives of the reforms on women economic empowerment by helping to build a healthier, more productive female labor force.

³⁰ Furthermore, beneficiaries of the PNBSF are identified through the National Single Registry (*Registre National Unique, RNU*) managed by the General Delegation of Social Protection and National Solidarity (*Délégation Générale à la Protection Sociale et à la Solidarité Nationale, DGPSN*) under the Ministry of Community Development, National Solidarity and Territorial Equity (*Ministère du Développement Communautaire, de la Solidarité Nationale et de l'Équité Territoriale, MDCSNET*) and are shared with the ANACMU to ensure their enrollment in the UHC program. However, there is a lack of interoperability between the RNU and ANACMU data systems as it relates to the enrolled PNBSF beneficiaries and therefore, the ANACMU encounters challenges at the operational level as more people should be eligible than what is planned.



Table 6. Prior action 1 under DPO1 and DPO2

Reforms undertaken under DPO1	Original triggers	Proposed Prior Actions under DPO2	Rationale for changes
<i>PA1: To reinforce the sustainability of the health insurance, the Beneficiary has decided to progressively deploy in all public health structures a unified information system for the management of files and the financial follow-up of the Universal Health Coverage.</i>	<i>T1: To improve access to health services for the most vulnerable, the beneficiary has (i) submitted to Parliament the draft law on the universal health coverage program, which governs its operation, financing, enrollment requirements and associated free health care regimes; and (ii) adopted a revised statute for the national supply pharmacy that facilitates the purchase of medicines on international markets.</i>	<i>PA1: To improve access to health services for the poorest and strengthen the financial soundness of the UHC program, the Recipient has: (i) issued a decree regulating the support to the beneficiaries of the PNBSF under the UHC program and (ii) adopted a revised statute for the PNA which facilitates the purchase of drugs on international markets.</i>	<i>The trigger has been updated to focus on the key aspect of the reform. In accordance with a presidential directive, aspects related to UHC are integrated into the Single Social Security Code being developed under the leadership of the Ministry of Labor. This Single Social Security Code involves other stakeholders, and the content goes beyond the scope of this reform. The momentum of the adoption of the law on UHC will be maintained by supporting the government's adoption of related regulatory texts that would address main bottlenecks to access to health services for the poorest populations.</i>

41. **Expected Results.** The decrees regulating support to the beneficiaries of the *PNSBF* and the new legal status of *PNA* to reduce stock out of essential medicines and medical supplies supported by this operation will increase the number of poor households covered by health insurance and ensure financial soundness of the system, enabling the expansion of the *UHC* program. In a context where households have low incomes, irregular cash-flows and imperfect financial instruments, the provision of a reliable *UHC* program and well stocked national pharmacy are key to reducing said uncertainty³¹. These regulations are expected to allow for an expansion of the *UHC* program from 49 to 60 percent³², reducing multidimensional poverty and increasing the resilience of households to shocks.

PA2: Institutionalize and Consolidate of the National Social Protection System

42. **Rationale.** Senegal’s growing social protection system is essential to promote equity and resilience. The *RNU*, which is a key element of the social protection system, has been established in 2015 by the General Delegation for Social Protection and *DGPSN*. The registry includes over 550,000 households nationwide—about 30 percent of the population – and will be extended to 1 million households in 2023 covering not only the entire poor population but also the vulnerable. The *RNU* has been used to select beneficiaries of the *PNBSF* Program but also a growing number of programs across sectors (education, culture, and electricity), as well as being used by humanitarian actors involved in responding to crises, to allow targeting. Current social protection programs include a national cash transfer program providing regular consumption support and sensitization activities on human capital protection to the 300,000 poorest families, a productive program to help beneficiaries develop and diversify their livelihoods for greater climate resilience, and a shock-responsive assistance to households affected by climate-induced shocks, such as food insecurity, floods, and fires. This is crucial, as majority of the poor have agriculture livelihood and are sensitive to climate shocks.

³¹ Collins et al. 2009.

³² The intermediate result of the *CMU*, for a target initially set at 75 percent in 2023, has been revised to 60 percent in the new strategic plan developed following the country's evaluation held in 2022.



43. **Substance of the PA and progress in the reform program.** In 2021, progress has been made on the institutional deepening of the social protection system through the institutionalization of the social registry and the creation of the shock response program. The prior action for DPO1 was successfully completed: in August 2021, the RNU was institutionalized by presidential decree and established as the mandatory tool for targeting all social programs in the country, which will promote its use across sectors, in a context where many social policies and programs remain poorly targeted or regressive³³. The decree also improves the reliability and effectiveness of the RNU by defining its main functionalities, utilization protocols by Ministries and agencies across sectors, and data-sharing procedures. The creation of a shock response program, which was marked as a trigger, was achieved in August 2021 when the GoS issued a decree modifying the status of the National Solidarity Fund (*Fonds de Solidarité Nationale*, FSN), anchoring it at the Ministry of Community Development, National Solidarity and Territorial Equity (*Ministère du Développement Communautaire, de la Solidarité Nationale et de l'Équité Territoriale*, MDCSNET) with the mandate to design and implement shock response programs. So far, the responses to shocks have been demonstrably efficient from an operational standpoint but lacked institutional consistency and predictability. A clearer institutional framework for regular and shock-responsive cash transfer programs will ensure that chronic poverty and vulnerability to climate shocks are being addressed in a coordinated, efficient manner rather than on an ad-hoc basis.

44. **The objective of the reform sequence under the proposed operation is twofold: i) to strengthen the sustainability of Senegal main cash transfer program through the publication of a decree creating the PNBSF program and ii) to promote coordination of social programs by updating the decree creating the DGPSN to reflect the recent changes in the institutional context of the social protection sector.** While Senegal's PNBSF program has been sustained since 2013 and is financed with a dedicated line in the domestic budget since 2019, it is weakened by repeated payment delays due to complex financial arrangements between the Treasury and La Poste and by the fact that the pool of beneficiaries was never updated, resulting in the first cohort being in the program for more than eight years—far beyond the five-year limit. In 2022, none of the year's payments were made. Payments only resumed at the beginning of 2023 with the payment of the first two quarters of 2022 being made between January and February 2023. Publishing a decree creating the PNBSF will give legal existence to the program and clarify the program's key parameters, namely the eligibility criteria, program duration and the entry and exit strategy of beneficiaries. It will promote the program's sustainability and will be a first step toward the recertification of beneficiaries expected to take place in 2024. This will allow time for the recertification process to be coordinated with potential mitigation measures and an effective communication campaign needed to inform households of the needed changes in the eligibility of the program to strengthen its efficacy.

³³ SP Public Expenditure Review, 2017.



Table 7. Prior action 2 under DPO1 and DPO2

Reforms undertaken under DPO1	Original triggers	Proposed Prior Actions under DPO2	Rationale for changes
<i>PA2: To improve the equity and efficiency of social spending, the Recipient has established a regulatory framework for the Unified Social Register, which is becoming the mandatory targeting tool for all social policies, including climate and other shock response programs, and has regulated its use by ministries and agencies.</i>	<i>T2: To protect the human capital of the most vulnerable, the Recipient (MDCEST) adopted (i) a ministerial order establishing and regulating the National Cash Transfer Program (PNBSF) and creating a new program to respond to climate shocks; and (ii) a ministerial order triggering the re-certification process for PNBSF beneficiaries.</i>	<i>PA2: To improve the quality of the social protection system, the Recipient (MDCEST) has: (i) adopted a ministerial order through MDCSNET establishing and regulating the (PNBSF that clarifies eligibility criteria, program duration and exit strategy; and ii) published a presidential decree establishing the organization and operating rules of the DGPSN).</i>	<i>The creation of a shock response program has been achieved. The National Solidarity Fund (FSN) was established by decree in August 2021. This created overlaps in mandates between the DGPSN and the FSN. The decree establishing the DGPSN dates back to 2012 and needs to be updated to take into account the recent institutional changes in the social protection sector and clarify the respective roles and mandates of the DGPSN and FSN.</i>

45. **Recognizing the recent changes in the institutional context of the social protection sector, the revision of the decree establishing the organization and operating rules of the DGPSN will facilitate coordination of social programs and clarify the governance structure within the Ministry.** The MDCSNET has been created in 2019 with the mission to design and implement policies for social inclusion and cohesion. As a result, the DGPSN was moved from the Presidency to this newly created line ministry. The decree establishing the organization and operating rules of the DGPSN dates back to 2012 when the agency was under at the Presidency and needs to be revised to reflect the new anchoring of the DGPSN within the MDCSNET and the new role of the FSN in the implementation of shock response programs. Revising the decree establishing the organization and role of the DGPSN will clarify the role and mandate of the DGPSN in relation to the FSN and other agencies within the MDCSNET. It will facilitate coordination of social programs by highlighting the complementarities of each agency in the implementation of the social protection policy: the DGPSN focuses on tackling chronic poverty and building resilience by developing the productive capacities of poor households whereas the FSN provide timely support to vulnerable households affected by shocks.

46. **With support from the social protection projects PAFS and PAPSA, the MDCSNET is implementing programs that are contributing to the climate adaptation agenda by building households’ resilience.** Results from the impact evaluation of the PNBSF program showed the program has increased the resilience of beneficiary households to shocks and reduced the share of households negatively affected by shocks. Building on the PNBSF program, the DGPSN is implementing the Yokk Koom Kom program that is contributing to the climate adaptation agenda by helping poor households invest and diversify in off-farm income-generating activities that are central to building households’ resilience to climate shocks. Senegal social protection system is also leveraged to provide immediate relief to households affected by climate shocks. The FSN is implementing a program to respond to climate shocks, particularly in the event of floods and drought. In 2022, about 17,000 flood-affected households received digital cash transfers ranging from CFA francs 100,000 to CFA francs 200,000, depending on the extent of the damage and the poverty status of the households.



47. **Expected results: the reform sequence will lead to considerable progress in the equity of social programs in Senegal and their potential to foster resilience and climate adaptation.** Specifically, the total number of beneficiaries that could potentially benefit from social programs drawn from the RNU is expected to increase from 250,000 in 2020 to one million by 2024. Moreover, vulnerable households will have access to stronger, more equitable social programs that build their resilience, support their consumption, and protect them when shocks hit. These reforms will also complement (i) reforms planned in the health sector by protecting human capital from shocks and strengthening the targeting mechanisms of social policies, including the UHC program; and (ii) reforms on female labor force participation, by promoting women empowerment and stronger human capital for the poorest.³⁴

PA3 and PA4: Improve women's access to human capital and economic opportunities

48. **Women and girls in Senegal do not have the chance to invest in and use their human capital along their life cycle to the same extent as boys and men³⁵.** Not addressing women's unequal access to human capital and economic opportunities imposes significant costs on the economy and society. Today, Senegal may be losing 5 percentage points (ppts) in potential growth every year or 2.2 ppts in potential per capita GDP growth²⁹³⁶ due to low female labor force participation, with significant implications for poverty reduction. Actual figures would likely be higher, if one includes the consequences of women's lower access to human capital (resulting in their overrepresentation in informal, unpaid, and poorly paid sectors) and the gender wage gap. Importantly, besides direct economic gains, improving women's access to human capital is essential for the well-being of their children and families (including their health and education outcomes), contributing to breaking the intergenerational transmission of poverty.³⁷ The proposed reforms comprehensively address the root causes of limited human capital and restricted productive roles of women in the economy, by increasing girls' chances to stay in school, reducing discrimination, and opening-up economic opportunities.

49. **PA3 Rationale. Women-led businesses can make up a significant part of the economy, but it is estimated that women led business currently win less than 1 percent of public procurement contracts**

³⁴ These reforms will be accompanied and supported by the World Bank-financed Safety Net project (P133597) and associated programmatic ASA (P174074) through analytical work, technical assistance, and financing of certain activities critical to successful reforms, such as an intersectoral workshops on the RNU and large communication and outreach activities on the recertification process.

³⁵ Despite recent improvement in enrollment, Senegalese women are still systematically less educated than men, with the share of working age women (age 15-64) with no education still 10 ppts higher than for men (EHCVM 2018/19). Moreover, only 4.3 percent of women complete secondary school, compared to 11.5 percent for adult men, with this gap being more pronounced in rural areas. One of the root causes of this persistent gender gap is early marriage and pregnancy, widespread in the country particularly among rural, poor women. Almost one woman in ten aged 20-24 declared themselves married before the age of 16 (DHS 2018), with important consequences for secondary school attendance, maternal health, and labor market outcomes. Women who wed underage are 5.4 percent more likely to be inactive than those who marry later in life, and 10 percent less likely to get a formal salaried job. In general, women's activity rate, earnings and agricultural productivity are lower than men by 22, 62 and 50 ppts respectively, and their underemployment rate is 22 ppts higher. Only 12 percent of the wage gap is explained by observable characteristics, suggesting discrimination is widespread (2018).

³⁶ Simulations on potential growth indicate that if female labor force participation (FLFP) was as high as for male workers, growth in Senegal in 2020 would reach between 10 and 11 percent (depending on assumptions over TFP), up from 6 percent. Such simulations are based on a timeseries up to 2019. Data from ENES 2018 and National Accounts, World Bank Staff calculations.

³⁷ WDR on Gender Equality and Development 2012; Klasen 2002; Bicego & Boerma 1993; World Bank 2011; Klugman et al., 2014; Diamond, Newby & Varle 1999; Levine et al. 2008, Wodon et al. 2017.



worldwide³⁸. Small and Medium Enterprises (SMEs) in general face numerous barriers to entry into public procurement markets and those barriers tend to impact disproportionately Women-led SMEs (WSMEs), including a lack of information on tender opportunities, limited access to finance, overly complex procedures, unreasonable technical/financial requirements, large contract sizes, failure to receive payments promptly, etc. In Senegal, SME survey data showed that knowledge of public procurement is low among WSMEs, with less than 38 percent of WSMEs knowing the public procurement procedures compared to over 50 percent of male-led entrepreneurs³⁹. Sex disaggregated data on WSME participation in public procurement isn't available but their participation is estimated below 8 percent while WSMEs represent over 30 percent of SMEs. To that end, several countries including Senegal are taking initiatives to facilitate the participation of SMEs and WSMEs in public procurement markets.⁴⁰

50. **Substance of the PA and progress on the reform program.** PA3 3 (DPO1) addressed constraints to access economic opportunities in the formal labor market and is expected to increase opportunities for women in more sectors of employment, reduce inequalities contributing to the wage gap and protect women via the reform of the Labor Code. In addition, PA3 under DPO2 will enable women-led firms, along with other disenfranchised groups, to access economic opportunities, via amendments to the Public Procurement Code to promote women access to public contracts. According to anecdotal evidence from consultations with women business owners, a lack of information and limited access to up-to-date knowledge on procurement processes due to more limited social networks among women business owners leads to constraints in their ability to access and effectively participate in procurement processes. Reforms will include a package of positive actions such as legal set-aside quotas for women (2 percent) as well as other disadvantaged groups and SMEs (5 percent all together) and a bid preference of 5 percent for women and youth led companies. Complementary support measures will include information sharing and awareness campaigns, overall simplification and clarification of procurement processes and development of a databases of contracts available for WSMEs to ensure that the planned reform targets truly materialize for WSMEs. The measures will also include collection of gender disaggregated data to identify WSME contractors.

51. **Expected Results. The targeted outcome of these reforms is increased transparency of public procurement opportunities available for WSMEs over the medium-term.** The value of public procurement contracts available for female-led firms is expected to increase by 2 percent by 2024⁴¹. Furthermore, important synergies exist with ongoing World Bank financed projects. In particular, the We-Fi project provides TA and training to facilitate access to public procurement for women, including preparation of relevant implementing regulations and data collection strengthening by the Regulatory Agency of Public Market (*Agence de Régulation des Marchés Publics - ARMP*). The ETER (Employment, Transformation and Economic Recovery) PforR project has established a TA platform with the Agency for the Development and Support of Small and Medium-sized Enterprises (*Agence de Développement et d'Encadrement des Petites et*

³⁸ The evidence base regarding this aspect is still relatively limited, as little sex disaggregated data is available for contractors, further emphasizing the need for increased attention.

³⁹ WBG Gender Strategy and Procurement Regulations

⁴⁰ Sustainable procurement policies provide measures for the inclusion of previously disenfranchised and underrepresented groups, including women. As such, public procurement policies can promote economic and social development objectives. Furthermore, knowledge of public procurement was lowest in sectors with highest representation of WSMEs, i.e. less than 25 percent in hotel sector and agriculture. Information on public procurement processes was identified as the biggest obstacle in access to public procurement. World Bank We-Fi Senegal survey results across 1,200 SMEs collected in 2020 in preparation of the We-Fi project to support WSME access to public procurement implemented jointly with UN Women.

⁴¹ Through establishment of a set-aside contract database hosted on a dedicated information website. Based on 2017 estimates, public procurement represents around 17 percent GDP in Senegal and 2 percent could represent new opportunities for women worth around 0.3 percent of the Senegal GDP.



Moyennes- ADEPME) to support SMEs, including WSMEs in accessing new markets. Similar reforms in other countries also had impact on increased business formalization, registration and access to finance by women entrepreneurs who accessed public procurement.

Table 8. Prior action 3 under DPO1 and DPO2

Reforms undertaken under DPO1	Original triggers	Proposed Prior Actions under DPO2	Rationale for changes
<i>Prior Action 3: To reduce discrimination against women in the labor market, the Recipient has (i) approved and transmitted to its National Assembly draft legislation amending the Labor Code to (a) prohibit gender discrimination in employment; and (b) prohibit and sanction pregnancy-related considerations when recruiting, dismissing, or transferring a woman to another position; and (ii) adopted a Decree amending Regulation (Arrêté) No. 5254 IGTLs / AOF to remove restrictions on non-pregnant women’s work.</i>	<i>Trigger 3: To increase access to economic opportunities for women, the Recipient has approved and transmitted to its National Assembly a revised Public Procurement Code to introduce definitions and measures to facilitate women-led enterprises access to public procurement.</i>	PA3: To increase access to economic opportunities for women, the Recipient has revised the Public Procurement Code decree to introduce definitions and measures to facilitate women-led enterprises access to public procurement.	<i>Refined statement of PA3 to reflect that the Procurement Code is a decree, therefore it is approved at Cabinet level (Council of Ministers) and not by the National Assembly. No material changes have been made to the content. PA3 under the first DPO was dropped from the policy matrix as a baseline to measure its impact is not yet available. The World Bank will continue to support the GoS to establish meaningful databases to track results in this policy area.</i>

52. **PA4 Rationale. The proposed reform aims at addressing constraints to human capital accumulation for all girls, tackling the urgent issue of early pregnancies and their effect on school attendance,** through the adoption of a Ministerial order establishing the right of girls to continue their education while pregnant and to be reintegrated into school after pregnancy, particularly for those who dropped out⁴². Pregnancies among schoolgirls are prevalent in Senegal⁴³. In the absence of adequate support, pregnant schoolgirls face higher risk of dropping out of school. Two ministerial letters will supplement the ministerial order to establish an operational mechanism to support pregnant girl’s education. The first letter requires the designation of a teacher-referent at the school level to be the resource person for the protection of all students, with no exclusion on the basis of gender. The referent-teacher will liaise between the school, the Ministry of Education and the Gender and Equity Unit and report any irregularity against students’ right to education expelled for unjustified motives. The second letter describes the resources made available to the referent-teacher to support pregnant girls in pursuing their education and/or accommodate their return after delivery. The combination of different instruments represents a pragmatic and implementable approach to supporting girls’ rights to continue their education. Girls achieving higher levels of education are more equipped to access higher paying jobs and occupations, be empowered, and serve as role models for

⁴² This order will go beyond the ministerial letter issued in 2007, which only allowed girls to return to school after delivery. Although the 2007 ministerial letter is integrated into the manual of schools’ principals, its application was limited due to a lack of communication around it. Stronger enforcement of the regulation is expected by upgrading the legal instrument to a ministerial order with clearly defined terms of application. In addition, it appeared that a number of school principals and teaching staff were not aware of the existence of the 2007 ministerial letter, which means that succeeding in disseminating the order widely will be sizeable progress. The order will be widely disseminated, to allow all stakeholders at the local level – including students, families, communities, teachers, and other stakeholders - to fully understand its content.

⁴³ In 2019, over 1300 adolescent schoolgirls aged 12-19 years [about 68 out of 1000] reported to be pregnant.



future generations of girls.

Table 9. Prior action 4 under DPO1 and DPO2

Reforms undertaken under DPO1	Original triggers	Proposed Prior Actions under DPO2	Rationale for changes
	<i>Trigger 4: To increase girls' chances to complete their studies in a safe and healthy environment, hence improving their chances in the labor market, the Recipient has further enhanced and implemented girls' rights to education.</i>	<i>PA 4: To improve girls access to education, the Recipient has adopted a Ministerial Order establishing the right of girls to continuing education while pregnant and reinforcing their rights to be reintegrated into school after pregnancy for those who dropped out.</i>	<i>Refined statement of PA4 to specify content of Ministerial Order.</i>

53. **Expected Results.** These measures are expected to lead to the following outcome results over the medium-term. The share of pregnant schoolgirls receiving support to pursue their studies should go from 0 percent to at least 80 percent in 2024, and the share of the beneficiary pregnant schoolgirls who pursue or plan to pursue their studies is expected to rise from 0 to at least 70 percent by 2024. Moreover, the proposed reforms will likely contribute in the longer term to reducing child and maternal mortality and to accelerating the demographic transition, two result indicators of the PSE.⁴⁴

Pillar 2: Strengthening transparent and sustainable use of productive resources and efficient management of fiscal accounts

54. **Pillar 2 of this DPF series supports reforms to strengthen the foundations of private sector-led growth in the short to medium term.** Supporting a more transparent and sustainable use of the country's productive resources will contribute to set the country on a more sustainable and equitable growth path. Reforms designed to promote private sector led growth aim at creating the relevant regulatory and institutional framework for inclusive access to financing for MSMEs and strengthen market competition in the medium-term. Macroeconomic stability and resilience supported by transparent, prudent, and effective fiscal and debt management are necessary conditions to maximize Senegal's potential for recovery and support medium-term growth. With fiscal space constrained, the effective crowding in of private investment and private sector contributions to short-term recovery and long-term inclusive growth are essential. Therefore, reforms targeting the efficient management of fiscal accounts supported under this pillar aim at strengthening government capacity to manage debt and fiscal revenues and expenditures efficiently and in a transparent manner, and to improve private sector liquidity flows. Particular attention is paid to efficient fiscal and debt management and rationalization of VAT expenditures to seek equity and boost revenue collection.

⁴⁴ The proposed measures are in line with current government efforts and strongly complement ongoing World Bank financed projects tackling the same constraints. The reduction of gender inequalities is one of the strategic objectives of the PSE PAP 2, as is the acceleration of the demographic transitions, and both are confirmed in PAP 2A. Furthermore, important synergies exist with ongoing World Bank financed projects. In particular, the We-Fi project provides TA and training to facilitate access to public procurement for women; the Investing in Maternal, Adolescent and Child Care project has an adolescent health component including the implementation of a CCT to keep girls in secondary schools, as well as technical and life skills trainings for girls out of school, and community awareness activities to prevent early marriage and pregnancy.



PA5: Improving debt and fiscal risks management

55. **Rationale. While public debt is sustainable, the stock of debt in Senegal is high, with limited space to absorb shocks in the short term**⁴⁵. To manage its risk of indebtedness, the Government has moved away from the use of non-concessional financing -except for financing projects with high internal rate of return- to market financing from the regional government securities market. Senegal has a well-established Debt Management Unit and substantial debt management capacity. The rationale of the proposed reforms is therefore to strengthen existing capacity by boosting the effectiveness and transparency of the fiscal and debt management, including strengthening the capacity to assess and provision for fiscal risks from SOEs and PPPs. The Government is also strengthening debt management by improving the content of the annual borrowing plan.

56. **Substance of the PA and progress in the reform program.** Since 2021, the Government has made substantial progress in establishing the institutional frameworks for risk management and debt transparency, with support from the IMF and the World Bank. The prior actions of this program are in line with the reform agenda supported through the Sustainable Development Financing Policy (SDFP) under IDA19 and the IMF PCI. DPO1 (PA4) established effective and transparent implementation of debt management by outlining progress in the implementation of the multi-annual debt strategy, comparing the main cost and risk indicators to the MTDS targets and explaining the reason for any significant deviation.⁴⁶ The objective of PA5 under DPO2 is to provide the institutional arrangements needed to make fiscal management resilient to shocks by strengthening the country's capacity to absorb and mitigate risks as well as manage residual risks.

57. **Significant progress has been made since 2021 toward the first and second steps in the four-step approach**⁴⁷ **to this reform.** These resulted in the publication of two fiscal risks statements attached to the 2022 and 2023 budget laws. PA5 under this operation provides the legal backing for mitigating the impact of major risks with high probability of occurrence in each year by setting an appropriation in the budget, creating budget contingencies, and/or establishing buffer funds. The Government has signed a Ministerial Order (Arrete')⁴⁸ that establishes a framework for mitigating and provisioning for various risks including climate risks. The Arrete' defines the scope of budgetary risks, criteria for eligibility and procedures for reporting risks during budget implementation. This includes defining conditions for the implementation of mitigation measures to deal with shocks such as social, economic and climate shocks. Budgetary risks will be provisioned for through the global budgetary reserve and specific budgetary reserves which cover various risks such as those related to guarantees, PPPs, on-lending, and judgement debts.

58. **PA5 provides a separate appropriation for climate related natural disaster under Article 2 of the**

⁴⁵ The overall stock of debt reached FCFA 12.96 trillion representing 75 percent of GDP as of December 2022, of which 71 percent is external debt.

⁴⁶ On March 31, 2021, the government published an Arrêté (No.009518) which prepared the grounds for streamlined monitoring and laid out the rules for annual assessment of performance of Annual Borrowing Plans. The ABP for 2021 translates the MTDS into nominal amounts for the domestic and external debt instruments to address financing needs. In addition, Senegal prepares and publishes a complementary, transparent issuance plan covering all marketable debt allowing for sufficient flexibility to adapt to changing market conditions. On September 28, 2021 the Minister of Finance and Budget issued an instruction for the publication of quarterly debt bulletins, within 90 days of the quarter-end, including information on SOE and PPP debt and assessments of the implementation of the Medium-Term Debt Management Strategy (MTDS) and Annual Borrowing Plan (ABP), in accordance with Article 6 of Regulations No 09/2007/CM/UEMOA which guides public debt management in UEMOA countries. The instruction was adhered to and led to the publication of two detailed quarterly debt bulletins in April and August of 2022 to improve the transparency of its debt; and MTDS for 2021-23 and 2022-2025 periods.

⁴⁷ Namely (i) identifying, quantifying and disclosing of fiscal risks (ii) mitigating and managing exposure to the risks (iii) deciding how to provision for unmitigated risks, and (iv) deciding on how to accommodate residual risks.

⁴⁸ The World Bank provided technical assistance to the Government of Senegal in this area.



published Arrêté. The provision is linked to the Organic Law on Budget Laws (OBL) that allows for a general contingency appropriation for accidental and unforeseen expenses and a separate appropriation for “guarantee” calls. Unlike the past, the Authorities are building capacity to quantify climate risks to enable them to confirm the adequacy of the existing budgetary instruments. Article 4 provides for a global budgetary reserve to cover the management of calamities and disasters that have a significant impact on the population and their activities. This means that if a population’s livelihood is affected by unplanned climate related disaster, such as those rising from temperatures and erratic rainfall, weather-related hazards, and rising sea-level, the authorities could intervene using the global budgetary reserve. The provision for disaster risks management is part of the overall provision between 1 percent and 3 percent of the total expenditure of the general State budget. The Arrêté provides for Sector Ministries to apply to the Ministry of Finance and Budget (MFB) for the resources in the event of a disaster.

Table 10. Prior action 4 under DPO1 and prior action 5 under DPO2

Reforms undertaken under DPO1	Original triggers	Proposed Prior Actions under DPO2	Rationale for changes
<i>Prior Action 4: To improve effective debt management, the Recipient has created a framework for the mandatory annual monitoring of the implementation of the multi-annual MTDS, which describes the scope, timing, procedure, and disclosure of the annual implementation report, and adopted and published its MTDS for 2021-23 and validated the borrowing plan for 2021 (covering all domestic and external debt under the control of the central government).</i>	<i>Trigger 5: To improve fiscal risk management, the Recipient has (i) developed and adopted (by Arrêté) a detailed risk-assessment methodology for the granting of public guarantees and on-lent loans to SOEs and monitoring of SOEs’ credit risk; and (ii) included an analysis of macroeconomic and specific fiscal risks as an annex to the Multi-year Budgetary and Economic Programming Document (DPBEP) sent to Parliament.</i>	<i>Prior Action 5: To improve the management of budgetary risks, the Minister of Finance has adopted an Arrêté defining measures and associated implementation modalities to provision for the fiscal risks quantified in its Fiscal Risks Assessments (FRA)⁴⁹</i>	<i>The PA is an update from the trigger. The Government developed and adopted the risk-assessment methodology in 2021 and prepared fiscal risks statements annexed to its budgets in 2022 and 2023. The Government agreed to continue the reform path by putting in place the institutional framework for strengthening mitigation and provisioning for residual risks with high probability of occurrence. The Arrêté provides the procedures for implementation of this reform and commits to provision between 1 and 3 percent of total expenditure to the contingency reserves of the general State budget. This demonstrates commitment to sustain this reform.</i>

59. **Expected Results. The targeted outcome of this reform is increased transparency and quality of debt management and budget planning.** The support under this proposed DPO complements other WBG and donor efforts in this area. Strong and transparent debt management not only reduces costs and fiscal risks attached to borrowing, but also sends an important signal to all stakeholders, including creditors and investors. Over time this should enhance the government’s capacity to actively manage those risks and

⁴⁹ These are also annexed to the finance law.



provide signals to help discipline fiscal policy. The recent publication of debt bulletins and the addition of fiscal risks statement to the annual budget showcases the commitment to transparency and quality of debt management in a sustainable manner.

PA6: Increasing tax revenue and liquidity for the private sector.

60. Rationale. High tax expenditures are a major constraint for the mobilization of tax resources in Senegal, which is currently well below the regional target of 20 percent of GDP. The differentiated tax treatment of specific sectors, activities, and regions is widespread, increasing complexity and reducing the fairness, efficiency, and effectiveness of the tax system. Because of the limited tax base on income tax, VAT remains the most important source of income, accounting for about 40 percent of total government revenues and contributing around 8 percent of GDP in revenue.

61. Substance of the PA and progress in the reform program. While progress has been made in this area, more effort is needed to improve domestic resource mobilization. The Government recognized the need to improve revenue collection in 2021 modifying the tax code through the passing and publication of the budget law 2021 to formalize an accelerated VAT credit refund process, reform supported under DPO1.⁵⁰ As of April 2023, refund procedures are carried out within a maximum of 30 days in accordance with the provisions of Article 393 of the CGI issued by Finance Law No. 2020-33 of December 22, 2020 for large and medium sized companies. The average processing time to refund requests to large companies during the last quarter of the year 2022 was six days. Further revenue mobilization progress was achieved in May 2022, when an upper income tax rate was introduced, and tax exemptions for cement companies were abolished, along with some exemptions on water and electricity consumption.⁵¹ Tax expenditures represented close to 6 percent of GDP in 2020, equivalent to 31.6 percent of tax revenues collected in 2020. A breakdown by type of tax shows that over 88 percent of tax expenditures were on VAT (743.27 billion) (743.27 billion), 5 percent on income tax (42.45 billion) and 4.9 percent on customs duties (40.98 billion). In 2020, tax expenditure for water was FCFA 6 billion and electricity (FCFA 23 billion). With regard to tax expenditures on electricity, nearly 75 percent of the amount of exemptions related to the first tax bracket, known as the social bracket, which concerns households whose consumption does not exceed 150 kWh.

62. PA6 under this proposed operation continues to deepen earlier reforms to reduce tax exemptions. It supports tax expenditure rationalization through an improved targeting of value added tax (VAT) exemptions, while preserving consumption of the poorest households, with the objective of further improving the efficiency of tax expenditures. VAT is a broad-based tax, and it has proved difficult to target exemptions to the consumption patterns of the poorest households. While exemptions on basic food items, for example, may have a relative higher impact on the poorest households, the absolute monetary support to middle- and higher-income groups is much higher, due to higher consumption levels. In fact, the top decile consumes over 30 percent of nationwide spending on exempt goods while the poorest decile consumes only less than 3 percent of exempt items, making exemptions regressive in absolute terms. Such poor targeting of exemptions is an inefficient use of public resources because it leads to a relatively large VAT revenue loss

⁵⁰ In DPO1 (PA5) the VAT credit refund process targeted a refund period of 30 days.

⁵¹ On May 20, 2022, when Parliament approved a supplementary budget (“Loi de Finance Rectificative”) removed the exemptions on water and electricity consumption and abolished tax exemptions for cement companies. These exemptions represent about FCFA 15 billion (0.09 percent of GDP) of the FCFA 25 billion (0.15 percent of GDP) in fiscal gains envisaged in 2022. In addition, the Finance Law included a new upper income tax rate of 43 percent for holders of annual taxable income above 50 million FCFA which was estimated to increase tax revenues by FCFA 5 billion in 2022.



without a commensurate reduction in poverty.

63. **The rationalization of VAT exemptions being supported by PA6 is aimed at goods that are mostly consumed by the top of the income distribution.** The elimination of VAT exemptions on electricity consumption is targeted to households whose electricity consumption is above the social bracket, which largely consists of households in the top 30 percent of the distribution. Similarly, elimination of the VAT exemption on non-medical expenditures in private healthcare institutions are largely associated with services that are largely optional and consumed mostly by the top of the distribution.⁵² The ongoing IDA-funded Senegal Energy Access Scale-Up Project (P176620) includes funding for communication campaigns targeted at raising awareness about Senelec’s upcoming connection campaign for vulnerable households, including on social tariffs and containing household electricity costs through the feature offered by Senelec’s “Woyofal” prepaid meters.

64. **While reducing the VAT exemptions were included in the 2023 budget law, the provisions of the “Code Général des Impôts” (Loi 2012-31, article 361), through the removal of VAT exemption in the power sector, has been delayed.** More specifically, the related implementation decree which would put into effect article 361 by defining the social tariff tranche for the electricity sector, has not yet been issued by MFB. Consequently, with the threshold for a new social tariff yet to be defined, the two lowest tariff tranches continue to be VAT-exempted. With the lack of up-to-date affordability analyses and poverty data on Senelec’s customers, the delayed removal of the VAT exemption for the lowest household consumption segments also helped protect low-income households from the impact of the 17 percent (average) tariff increase implemented in January 2023. Moreover, following the above tariff adjustment, a review of the current tariff structure is ongoing since early 2023 as integral part of the “energy road map”. The review includes the revision of the current kWh threshold for the social tariff above which all VAT exemptions will be removed. The lowest consumption households consuming below 150 kWh/billing period (one month for pre-paid and two months for post-paid customers) benefit today from a tariff that is (i) considerably below the cost of supply and (ii) wasn’t adjusted upwards in the January 2023 tariff increases.

Table 11. Prior action 5 under DPO1 and prior action 6 under DPO2

Reforms undertaken under DPO1	Original triggers	Proposed Prior Actions under DPO2	Rationale for changes
<i>Prior Action 5: To increase efficiency of VAT administration, the Recipient has included in its budget law the acceleration of the VAT credit refund procedures.</i>	<i>Trigger 6: To increase efficiency of tax expenditure, the Recipient has eliminated (selected) VAT exemptions mainly consumed by the wealthiest part of the population and not subject to a high substitution effect.</i>	<i>Prior Action 6. To increase the efficiency of tax expenditures while protecting the poor and vulnerable, the Recipient has removed VAT exemptions on: (i) electricity consumption for households whose consumption exceeds the social tranche; (ii) non-medical services delivered in private healthcare institutions.</i>	<i>Refined statement of PA6 to specify the exemptions to be eliminated.</i>

65. **Expected results. These reforms are expected to support the growth recovery in the short term and permanently improve the efficiency of VAT collection in an equitable way in the medium term.**

⁵² Some VAT exemptions that largely benefit the wealthiest segment the population remain, including on: (i) luxury rice, meats, and poultry, (ii) private education, and (iii) on rents. Since exempted items are mostly consumed by the top of the income distribution, increasing VAT or removing the exemptions of these goods and services will not increase the levels of poverty.



Specifically, the overall increase in VAT revenue is expected to increase by 0.6 percent of GDP between 2020 and 2024, while protecting the poor⁵³. This will also contribute to strengthening macro-fiscal resilience by generating more fiscal space. While the direct impact of these measures on the poor is limited by the very regressive nature of these tax expenditures, to the extent that the additional fiscal space is used to expand the coverage of social assistance (PA2), the net impact on the poor is expected to be positive.

Empowering the private sector

Increasing SME financing

66. **Rationale. Access to finance is key to enabling entrepreneurial start-ups and MSMEs to create more and better jobs, including for the poor.** Senegal has a US\$1 billion gap in terms of access to finance for MSMEs, with needs for both debt and equity finance.⁵⁴ Across WAEMU, Senegal is the country where firms report being the most financially constrained. The main barriers are lack of competition in the banking sector, lack of credit infrastructure, a poor legal framework, and insufficient public interventions. In addition, financing mechanisms are numerous and scattered, requiring rationalization, and opportunities to take advantage of e-wallet usage are still minimal, with only 7 percent of the adult population having received an e-payment from the Government. Finally, despite a few digital initiatives such as EcobankPay,⁵⁵ digital financial solutions are not widespread. These areas usually correspond to market failures in nascent SME finance markets.

67. **Substance of the PA and progress in the reform program.** The objective of this reform sequence is to improve access to financing for startups. The first operation focused on the adoption of the implementing decree of the Startup Law⁵⁶. The decree⁵⁷ clarifies the principles and mechanisms for the selection, certification, and funding of startups (Prior Action 6 – DPO1). To facilitate the financing of MSMEs in an inclusive manner the original trigger for this operation envisioned: (i) the set-up of partial credit guarantee systems via a guarantee fund with the priority investment guarantee fund (*fonds de garantie d'investissement prioritaire* FONGIP) (via a decree); and (ii) strengthened regulations facilitating insolvency resolution. FONGIP already operates credit guarantee schemes and there is no particular need for a decree for these schemes to operate. The Government has worked to improve its governance and structure and is committed to continue the institutional reform of the agency, supported by World Bank financing⁵⁸. The next steps in this reform area would be the licensing of the agency by the BCEAO, which would allow FONGIP to leverage more capital to finance SMEs. The authorities have indicated⁵⁹ that their focus for the short term would be to develop FONGIP's mission to provide nano finance to vulnerable groups of the population, as

⁵³ Note that the PSIA uses micro data to estimate the revenue impact of the two measures supported by the series to be equivalent to 0.86 percent of 2021 GDP and expected to grow annual by 0.11 percent of GDP until 2024.

⁵⁴ <https://www.smefinanceforum.org/data-sites/msme-finance-gap>

⁵⁵ EcobankPay is a pilot program initiated by Ecobank that seeks to equip thousands of merchants with virtual electronic payment terminals, which in turn allows Ecobank credit allocation based on payment records. See Ndiaye (2020), a case study on EcobankPay for the DSOG study.

⁵⁶ After its adoption by Parliament on December 27, 2019, a law relating to the creation and promotion of startups in Senegal was put into effect on January 6, 2020. Article 12 of this law states that the endowment mechanisms of funds of public and private origin for the financing and growth of startups, as well as fund management methods will be set by decree.

⁵⁷ With this decree, the Government has established a new efficient and transparent mechanism to select and certify startups and principles that the financing mechanisms should follow (i.e., transparency, accountability, and regular monitoring and evaluation). It also stipulates that fund managers must be professionally recruited and that public funding mechanisms will favor co-investment with the private sector to maximize finance for development.

⁵⁸ JET - *Programme pour l'emploi, la transformation et la relance économique (PforR) du Sénégal*.

⁵⁹ See Letter of Development Policy (LDP) in Annex 3.



envisaged originally in the President’s social agenda. While the Government understand the relevance of this reform for FONGIP’s current activities it informed that the decision to proceed with this is dependent on FONGIP’s mandate going forward and that a review of this mandate is ongoing.

68. **The foundational legal framework for Corporate Insolvency also already exists.** This is underpinned by the OHADA Uniform Law on Insolvency that was passed in 2015, followed up by the 2016 National Regulations establishing the Insolvency Practice in Senegal, and by the Procedures on the fees and costs of the Insolvency Process. Nonetheless, the practice of Insolvency in the country remains embryonic and as a next step to promote this the International Finance Corporation (IFC) is planning an advisory services project to build capacity in the public, private and financial sector for the practice of financial insolvency. Given that that this work is more of an implementation, market development nature rather than a policy or institutional reform the team proposes to drop this sub-trigger from the current proposed operation.

Table 12. Prior action 6 under DPO1

Reforms undertaken under DPO1	Original triggers	Proposed PA under DPO2	Rationale for changes
<i>PA6: To increase access to finance for startups, the Recipient has adopted a regulatory framework for the promotion and financing of startups pursuant to which, as a matter of general principle, public financing shall be combined with and leverage private resources for the financing of startups.</i>	<i>T7: To facilitate the financing of MSMEs in an inclusive manner, the Government has: (i) set up partial credit guarantee systems via a guarantee fund with FONGIP (via a decree); and (ii) strengthened regulations facilitating insolvency resolution.</i>	Dropped	<i>FONGIP already operates credit guarantee schemes and there is no particular need for a decree for these schemes to operate. The foundational legal framework for Corporate Insolvency already exists.</i>

69. **Expected results.** As a result of these measures, the number of certified startups is expected to increase from 0 in 2020 to 50 in 2023 and the number of certified startup financing mechanisms from 0 in 2020 to 5 in 2023. Reducing barriers to access to finance should also have a positive impact on women empowerment: according to the same representative sample, only less than 5 percent of women-owned businesses used mobile banking in 2018, compared to 7.5 percent of men-owned businesses. While the rate is very low in both cases, there is a disproportionate upside potential for women.⁶⁰

Facilitate equitable access to ICT services

70. **Rationale.** Despite notable progress, the development of Senegal’s digital economy and digital inclusion has been stifled by weak accessibility and usage of broadband that can be boosted through a better utilization of strategic state-funded and state-owned fiber optic assets. The number of unique mobile broadband subscriptions per 100 inhabitants in Senegal at 36.5 percent in 2021⁶¹. Despite more than tripling since 2016, is still behind key regional comparators (such as Cote d’Ivoire, Morocco, and Cabo Verde). Fixed broadband penetration, critical for higher speed and higher productivity use, remains very low, estimated by the sectoral regulator (ARTP) at 1.35 percent of the population in 2022 and by Telegeography at 12 percent

⁶⁰ And it makes a big difference in terms of better jobs: businesses that use mobile banking have significantly higher per-owner entrepreneurial profits, by almost a factor of 10, relative to those that don’t use mobile banking: the unconditional means are XOF 5 367k month versus XOF 592k per month.

⁶¹ Source: Groupe Speciale Mobile Association



of households in 2022. At the same time, Senegal has invested significant public funds in a large public fiber optic network, currently spanning over 5,000 kilometers, that remains largely underused, despite significant potential demand from MNOs and internet service providers (ISPs) to lease access to carry rapidly growing data traffic. The strategic network was previously under the responsibility of the State IT Agency (*Agence de l'Informatique de l'Etat, ADIE*) that in a reform supported by the previous DPO transferred its assets as well as rights and obligations to a national holding company SENUM eligible to own all public fiber optic assets of the state. SENUM is now fully operational, as it received starting capital of FCFA 10 million, had its Director General appointed and its Board of Directors established. It held its first three meetings held in 2022.

71. **Substance of the PA and progress in the reform area.** The completion of the reform to concession public fiber optic assets, now owned by SENUM, to a private operator has been persistently delayed. As part of the previous DPO series, the GoS committed to transfer the management of the state-owned fiber optic assets to a private wholesale operator, selected under an open and transparent international call for tenders. With this objective, the MFB launched in November 2019 a call for pre-qualifications for the selection of a private concessionaire for the management of public fiber optic assets⁶² and pre-selected four bidders in January 2020.⁶³ To prepare final bidding documents and launch the tender, the GoS needed to conduct an audit of all public fiber optic assets, which the MFB attempted to launch by recruiting an international consultant in July 2020. However, the audit work could never start⁶⁴. The policy dialogue has recently gained a new momentum and several critical breakthroughs have been achieved with the GoS demonstrating a commitment to see the reform through.

72. **The Government has reconfirmed its resolve to complete the reform in Resolution No 01/2023 adopted by the SENUM's Board of Directors on March 14, 2023.** In this resolution, SENUM committed to (i) launch a new call for pre-qualifications to concession the exploitation, maintenance, and commercialization of the excess capacity of the fiber optic infrastructure of the state (achieved with the publication on March 28, 2023 in UNDB and "Soleil"); and (ii) invite pre-qualified companies to participate in the international tender by October 1, 2023. In this context, the World Bank team suggests dropping the trigger, while (i) supporting the GoS in completing the audit in a timely manner and launching a tender by October 1, 2023; and (ii) reconfirming the commitment of the GoS to launch "the international tender to recruit a private concessionaire to effectively operate the public fiber optic assets" (as outlined in the previous LDP of March 2022 and SENUM's Resolution) in a new LDP. This will send a signal to the market on the GoS' continued commitment to reform, which is expected to improve fixed broadband penetration, as telecom operators are expected to factor this in their network roll-out plans.⁶⁵

⁶² Published on November 20, 2019 in Soleil and UNDB (reference number CC_DGCPT/DSP_1383).

⁶³ Four bids were received on January 27, 2020 and pre-qualified by the Commission under the Directorate of Public Services (*Direction du Service Parapublic, DSP*). However, the assessment report of DSP Commission was never signed, and bidders were never notified.

⁶⁴ According to the Letter of Development Policy (LDP) of the previous operation signed in March 2022, the responsibility for conducting the audit and launching the tender now lies with SENUM, which jointly with the Ministry of Communications, Telecommunications and Digital Economy (Ministère de la Communication, des Télécommunications et de l'Économie Numérique, MCTEN) prepared new audit ToRs, reviewed and validated by the World Bank on December 16, 2022, as the exercise is to be financed by the project preparation advance of the Senegal Digital Economy Acceleration Project (P172524). The selection of the vendor to conduct the audit has been finalized (with the contract signed on March 31, 2023) and its completion could be expected by September 2023. This means that the Government of Senegal is not currently in a position to complete the international call for tenders to recruit a private concessionaire and authorize it to operate the public fiber optic assets as a wholesale infrastructure operator (as envisaged by the original Trigger 8).

⁶⁵ which has marginally improved from the baseline of 0.9 percent of the population in 2020 to 1.35 percent in 2022 (as per ARTP data).



Table 13. Prior action 7 under DPO1

Reforms undertaken under DPO1	Original triggers	Proposed PA under DPO2	Rationale for changes
<i>PA7: To facilitate the further delegation of the management of the state-owned fiber optic assets to the private sector, the Recipient has enacted the law authorizing the establishment of a new holding company and adopted the regulations authorizing the transfer to the new company of: (i) the assets of ADIE and (ii) the State-owned fiber optic assets.</i>	<i>T8: To leverage state-owned fiber assets and facilitate equitable access to ICT services, the beneficiary (MENT) has adopted an Arrêté (pursuant to Article 58 of Law 2018-28) authorizing the private "concessionaire" to operate as a "wholesale".</i>	<i>Dropped</i>	<i>This trigger has been dropped due to delays in the advancement of the reform, the next step of which is the audit of the State-owned fiber optic assets transferred to the national holding company – SENUM, following its creation. The earliest completion of the audit, to be financed by the World Bank through Senegal Digital Acceleration Project (P172524), could be expected by September 2023. In this context, the trigger was dropped, while the World Bank continues to support the GoS in completing the audit and launching "an international tender to recruit a private concessionaire to effectively operate the public fiber optic assets" by October 1, 2023 (as outlined in the previous LDP of March 2022 and in Resolution No 01/2023 of the SENUM's Board of Directors). This commitment and timeline are detailed in the LDP.</i>

Strengthening the efficiency of the energy sector.

73. **The World Bank has been supporting the GoS on energy sector reforms over several years.** Most recently, a DPF series of three operations was concluded in December 2019 – with structural reforms to eliminate subsidies and promote financial sustainability of the power sector within five years, and to promote policies and measures to achieve universal access to electricity by 2025, five years ahead of the target set in SDG7. The most binding constraints that the DPF series tried to address were the high costs of electricity production, poor reliability of supply, and regulatory bottlenecks to increasing electricity access. The approach to structurally reduce costs and increase financial sustainability is particularly transformational – supporting the GoS to radically change its energy mix from a sector that was by 83 percent reliant on expensive, imported and carbon intensive Heavy Fuel Oil (HFO) and diesel generation in 2018, to a sector that has a mix of lower cost and lower carbon renewable energy (31 percent) and natural gas (54 percent), with the remainder coming from the already existing Sendou 125 MW coal-fired power plant (15 percent) by 2026⁶⁶. In addition to supporting the shift towards lower carbon intensive and cheaper electricity generation, the DPF series also supported a Gas-to-Power Strategy and the adoption of new gas law (known as the Gas Code). An update of Senegal’s “Integrated Least-Cost Development Plan (LCDP)” for the electricity sector was also prepared under the DPF series, identifying the priority least cost generation and transmission projects to accelerate the transition to lower carbon technologies and investments needed to achieve the ambitious emission reductions trajectory of the sector reform program.

74. **Following the conclusion of the previous energy sector DPF series, the most critical challenges to address for the current DPF series are: (i) further strengthening the competitive procurement and**

⁶⁶ The forecast energy mix is based on World Bank team’s economic investment and dispatch model developed for the purposes of the first DPF series. The latest LCDP from February 2022 forecasts a much higher share of natural gas in the energy mix (around 78 percent) and a lower share of renewables (around 20 percent) and only a marginal share of coal power generation. The marginal share of coal power generation in the country’s energy mix is in line with the World Bank’s latest forecast, while according to the World Bank’s analysis the share of renewable generation in line with least-cost planning and development remains around 30 percent.



enhancing the transparency of decision-making related to public procurement in the electricity sector; and (ii) ensuring both economic and environmental sustainability of the midstream and downstream segments of the gas sector. The above objectives are addressed by the below outlined Prior Actions consisting of the adoption of the new Electricity Code's Implementation decrees (PA7), a new Gas Code regulating the mid- and downstream segments (PA8), and the inclusion of new provisions in the current environmental legislation to prevent routine flaring and venting of natural gas (PA9).

PA7: Use of public procurement in the energy sector

75. **PA7 Rationale.** Senegal's ongoing energy transition efforts, captured by the LCDP for the power sector, are aimed at improving both the financial and environmental sustainability of the power sector by considerably lowering power generation cost and reaching one of the lowest sector carbon emission intensities on the continent by 2027⁶⁷. This is envisaged to be realized in the LCDP through the conversion of all grid connected fuel oil generation to gas-fired generation, commissioning of new combined-cycle gas turbines using domestic gas as it becomes available, as well as through supporting the development of additional renewable generation capacity and energy storage capacity to both facilitate the integration of intermittent renewable energy sources and improve security of supply on the grid. As per the latest LCDP, the renewables share should increase to over 30 percent of total capacity installed by 2030 (from 460 MW at the end of 2021 to 867 MW by the end of 2030) and at least 92 GWh of energy storage capacity should be developed to facilitate the integration of intermittent renewable generation. However, to ensure the economic sustainability of Senegal's power sector transition and implementation of the LCDP, additional efforts are necessary to strengthen the use of competitive procurement and enhance the transparency of decision-making related to public procurement, as well as to ensure new projects commissioned are in line with the LCDP. Without these actions, the uncompetitive procurement of projects even if identified as economically optimal in the LCDP, may result in Senelec, and therefore the population of Senegal, getting locked into overpriced long-term Power Purchase Agreements (PPAs) and losing out on the large cost reduction potential of the LCDP.

76. **Competitive procurement will be particularly important to enable further additions of variable renewable energy (VRE) generation capacity as any future VRE will have to outcompete low-cost electricity generated from domestic natural gas.** Recent experience in the subregion has shown that only international tendering and renewable energy auctions can reach per-kWh tariffs comparable to the levels anticipated for Senegalese Gas-to-Power (GtP) generation, while unsolicited bids and direct agreements have systematically failed to do so. In addition to competitive and transparent procurement, the financial and economic sustainability and competitiveness of VRE generation will have to be further improved by adding the battery storage capacity needed for surplus VRE generation to displace costly evening peak generation and ensure grid stability. Therefore, by supporting both the competitive procurement of VRE and battery storage

⁶⁷ Senelec, Plan de Production 2020 – 2035, February 2022 (also referred as the current LCDP). Within this context, the reforms supported by the first DPF series already contributed to initiating a gradual shift of Senegalese power generation mix towards lower cost and lower carbon energy sources. Most notably, with several solar and wind generation projects commissioned in 2019, 2020 and 2021, total renewable generation capacity had more than doubled to 460 MW by the end of 2021 from only 218 MW in 2018. Today, Senelec is progressing with plans for converting most thermal generation units from fuel oil to natural gas, as well as with plans to build new gas-fired generation and commission new regional hydro projects, additional solar photovoltaics capacity, as well as with plans to add new energy storage capacity to facilitate the integration of intermittent renewable energy sources and improve security of supply. As a result of efforts to clean its grid and continue the integration of additional renewable energy, the share of renewables in Senegal's energy capacity mix is forecast to increase to over 30 percent of total capacity installed by 2030, based on the latest update of the LCDP from February 2022. Moreover, Senegal's grid's emission factor is expected to reduce from 537 gCO₂e/kWh in 2021 to 280 g/kWh by 2025-27, depending on the timing of availability of domestic gas for power generation. The LCDP also does not consider coal as a candidate generation option, which is a specific decision by the Government not to build new coal generation regardless of the associated costs in the current LCDP.



capacity, the reforms supported by PA 7 are a critical prerequisite for the further expansion of VRE generation in Senegal.

77. **Substance of the PA and progress in the reform program.** Since the end of the first DPF series, the GoS has been working on further improving the provisions of the new regulatory framework regarding the competitiveness and transparency of public procurement in the power sector through the ongoing revision of the Electricity Code's draft implementation decrees. The revisions, which the World Bank team followed as observer in the technical committee established for this purpose, were mainly directed at the critical need to ensure a stronger (normative instead of consultative) role for the electricity sector regulator, *Commission de Régulation du Secteur de l'Energie* (CRSE), and a narrower definition of the circumstances and procedures under which an exception to competitive tendering procedures can be considered.

78. **The most relevant draft decree pertaining to these objectives establishes the procedures for awarding agreements and licenses related to regulated activities associated with the Electricity Code (PA7)** and was adopted in the Council of Ministers held on January 11, 2023. In the revised and adopted implementation decree to the Electricity Code, the Government further specified the critical provisions and procedures for (i) the processing of unsolicited bids; (ii) the processing of direct agreements; and (iii) the awarding of a contract by the contracting authority through a direct agreement procedure only after a non-objection/consent provided by the regulatory authority, CRSE, and after meeting specific circumstances that would justify an exemption to competitive procurement⁶⁸. The new procedures guiding the procurement of regulated activities in the power sector cover not only generation, transport, distribution and sale, but also energy storage with installed capacity of more than 0.5 MW to support integration of intermittent renewable energy sources. The implementation decree also clearly specified that the procurement of these activities needs to be in line with the LCDP, which conformity is to be ensured by the regulatory authority, CRSE. The implementation decree hence directly supports the two critical preconditions of Senegal's least-cost renewable energy scale-up, namely (i) the systematic use of competitive procurement for all new renewable energy capacity (as well as for other technologies); and (ii) enhancing the grid's ability to absorb additional intermittent RE generation through additional energy storage capacity.

79. **Expected results.** The expected results are: i) a clearer framework for decision making and more stringent requirements for negotiated deals, while also strengthening both the authority and independence of the electricity sector regulatory authority; ii) conformity of newly commissioned projects to the LCDP. The impact is increasing use of competitive processes for new generation and, in the case of negotiated deals, raise the bar on requirements for transparent justification. Ultimately, this reform program will lead to lower cost of supply than if projects were procured on a negotiated basis, and hence lower the need for subsidies for the sector and/or limiting the need for tariff increases.

⁶⁸ Direct contracting can be used only after the non-objection/consent provided by the CRSE and only in the following instances: i) When the implementation or operation of a project can only be carried out by a specific candidate after two (02) unsuccessful international open tenders; ii) For reasons related to the protection of patents, copyrights or other intellectual property rights; iii) In the event of an emergency as defined in Article 3 of the Electricity Code in order to ensure the continuity of public service; iv) When the amount of the project does not exceed a threshold determined by decree; and vi) Following a private initiative offer meeting the conditions set out in Article 37 of the Electricity Code.



Table 14. Prior action 7 under DPO2

Reforms undertaken under DPO1	Original triggers	Proposed Prior Actions under DPO2	Rationale for changes
	<i>Trigger 9: To further improve transparency of decision making in the electricity sector, the President has signed decrees associated with the Electricity Code that strengthen the use of competition and improve transparency of decision making related to procurement. In case governance shortfalls cannot be fully addressed through implementation decrees, the Recipient’s Council of Ministers will adopt and submit to the National Assembly revisions to the Electricity Code.</i>	<i>PA7: To further strengthen the use of competition and improve the transparency of decision-making related to public procurement, the President signed a Decree establishing the procedures for awarding agreements and licenses related to regulated activities associated with the Electricity Code and defining the provisions and procedures for (i) the processing of unsolicited bids, (ii) the processing of direct agreements, and (iii) the awarding of a contract by the contracting authority through a direct agreement procedure in the event of a negative opinion by the regulator.</i>	<i>The GoS has decided to conduct a multi-year “testing phase” of the Electricity Code during which the legislation will remain unamended. During the testing phase, MPE will continue collecting feedback from sector stakeholder informing a potential amendment at a later stage if necessary.</i>

PA 8: Viability of the energy sector

80. **PA8 Rationale.** With natural gas being the cornerstone of Senegal’s energy transition, the GoS is, alongside the electricity sector reforms, also in the process of establishing the policy, legal and regulatory instruments forming the GtP sector strategy and associated investment program. One of the most critical prerequisites for establishing the needed conducive regulatory framework was the adoption of the Gas Code (Code Gazier- Loi No 202-06) ⁶⁹defining the framework and procedures for investment in Senegal’s midstream and downstream gas segments. By regulating the validation regime of licenses and concessions, the operational modalities of the intermediate and downstream segments, the tax and customs regimes, third party access as well as all related transport and distribution facilities, the implementation of the Gas Code is expected to contribute to improve sector transparency while reducing costs and increasing efficiency and sustainability. The Gas code will ensure the productive use of gas which will replace other, more harmful sources of fossil energy and thus enable reduced emissions from power production (replacing HFO and diesel) and cooking (if it replaces firewood or charcoal).

81. **Substance of the PA and progress in the reform program** The Gas Code is being supported by the *Projet de Decree d’Application*, an implementing decree (PA8 under this DPO2) which further details legal and regulatory provisions (e.g., tariffs, sanctions, allocation of responsibilities) in the areas assigned to it by the Code. The gas code will play a key role in ensuring that the various components representing the gas market work well together and ensure efficient supply of gas under transparent and fair market conditions.

⁶⁹ Senegal’s Code Pétrolier (Loi No 2019-03) has upstream (oil and gas production) at its core, and was developed in response to the country’s significant exploration success. The Code Gazier (Loi No 2020-06) has its focus on downstream (gas utilization and commercialization including transport/midstream) and was developed to enable the efficient utilization of domestic gas for electricity generation, industrial feedstock, liquefaction and export. The Code Pétrolier and the Code Gazier, along with their respective accompanying legislation and regulation, cover the key elements of the gas value chain, and provide the fundamentals for efficient extraction, transport and utilization.



It deals with three distinct segments: (i) Tariffs, (ii) Operational modalities (license and concession allocation), and (iii) Connections and third party access to infrastructure. In most instances the Decree clearly points out where it adds the necessary details to operationalize the overall provisions made in the Gas Code⁷⁰.

82. **From a practical perspective, it remains to be seen how the various responsibilities will be carried out and if the overarching goal of establishing an efficient domestic gas market and LNG export industry can be achieved.** Areas to pay close attention to are (i) the quality of chosen license and concession holders; (ii) the capacity of the authorities to calculate tariffs and prices in line with their mandate; (iii) the capacity of the authorities to enforce the legal and regulatory provisions in a comprehensive and equitable manner, (iv) quality of the interaction/collaboration between the key authorities. Further implementation steps such as ministerial orders by the responsible authorities might still be required. Most important among these are Ministry of Petrol and Energy (*Ministère du Pétrole et des Energies*, MPE) and the CRSE. Nevertheless, the fully integrated legal and regulatory framework covering the key aspects of the production and supply chain contributes significantly towards the efficient production and utilization of domestic gas resources. Through the ongoing “*Supporting Gas Project Negotiations and Enhancing Institutional Capacities— (P160652)*” project, the World Bank is providing TA targeted at enhancing the GoS’s capacity to assess potential risks associated with the award of licenses, calculation of tariffs, enforcement of regulatory provisions, and coordination among key sector agencies. While primarily focused on the upstream side, mid- and downstream challenges are also being considered.

83. **Expected Results.** The resulting availability of abundant gas resources will likely lead to a reduction of feed gas prices (which could translate into reduced electricity prices provided the gas is used on large scale for domestic gas-to-power generation) as imported fuels (HFO and diesel) are expected to be replaced by domestic gas in power generation. While some limited amounts of HFO and diesel are likely still going to be required for power generation, Senelec’s main grid is expected to shift fully from fuel oil generation by 2030 according to the latest LCDP from February 2022. The country’s two to three independent gas sources (Grande Tortue Ahmeyim, Yakaar-Teranga, Sangomar), provided they feed into the pipeline transport and distribution network, also have the potential to improve the security of supply making the country less vulnerable to swings on the international commodity markets. Furthermore, a functioning and sufficiently supplied domestic gas market could also attract additional industries (e.g., fertilizer, methanol) and thus broaden the country’s industrial landscape. As such, we expect the average cost of electricity to ultimately decrease from about 26 US\$/ kWh observed in 2022 to around 19 US\$/kWh by 2027. As this result is expected to materialize beyond the timeline of this DPO, we have selected an intermediate indicator, which tracks the availability of gas production for domestic market.

Table 15. Prior action 8 and 9 under DPO2

Reforms undertaken under DPO1	Original triggers	Proposed Prior Actions under DPO2	Rationale for changes
	<i>Trigger 10: To further implement the Gas-to-Power Strategy, the President has signed decrees associated with the new Gas Code, which provide for planning, regulation and/or institutional arrangements for the gas</i>	<i>PA8: To reduce costs and increase sector sustainability, the Recipient has adopted decrees that implement the Gas Code defining the legal and regulatory framework for investment in the midstream and downstream segments of the gas subsector.</i>	<i>No material changes</i>

⁷⁰ (E.g., specific references are made to the following articles of the Code Gazier: Art 8, 11, 13, 19, 21, 26, 29, 44).



	<i>subsectors in their midstream and downstream segments.</i>		
		PA9. To reduce routine flaring and venting emissions (CO2 and methane) in the oil and gas production process, the Recipient has submitted to the National Assembly a supplemental proposal to amend the Environmental Code that specifies provisions to limit routine flaring and venting of natural gas, including the regime specifying exceptions and penalties for non-compliance.	New PA

PA 9: Curtail flaring and venting emissions

84. **PA 9 Rationale.** Senegal’s oil and gas industry is still nascent. This represents an opportunity to keep production emissions (CO2 and methane) and the resulting harmful effects on the climate at a minimum and to utilize the gas productively. During the production process three types of emissions can occur: (i) Flaring, the burning of natural gas, which can neither be utilized nor re-injected; (ii) Venting, the release of natural gas without even burning it, for reasons such as facility overpressure; (iii) Fugitive Methane, the accidental escape of natural gas due to poorly designed and/or maintained facilities. The vast majority of emissions from the first and second types occurs during the production process and is referred to as routine flaring and venting. These routine emissions can be avoided by imposing zero routine emission targets on the producers, who have to cater for them in their field development plans and by ensuring that an integrated gas value chain is in place. Fugitive methane, the third type of emission, can be avoided altogether by designing and maintaining the production facilities accordingly. As a relative newcomer to the oil and gas sector, Senegal can benefit from the legacy lessons learned by other, more seasoned, producers and benefit responsibly from its natural resources.

85. **Substance of the PA and progress in the reform program.** By requesting support and dedicating resources, the Government is recognizing the importance of understanding and applying international best practices from the sector so that its oil and gas resources will be produced responsibly and in line with established industry standards. As a result, the Government has taken concrete steps to include high level gas flaring and venting provisions in the new environmental code replacing the existing Code de l’Environnement (Loi n° 2001-01). This was done through amendments proposed by the Minister of the Environment in the form of a formal proposal to the National Assembly, with the more detailed provisions being covered in a subsequent application decree. The reforms related to the prohibition of routine flaring and venting supported by this operation is a key milestone towards achieving a broader framework for a more sustainable oil and gas industry. Senegal’s NDCs, in fact, only include the high-level provision of addressing oil and gas production related emissions as a conditional contribution, i.e. dependent on the provision of targeted financial support such as the concessional financing provided through proposed operation.

86. **Expected Results.** The establishment of a regulatory framework aligned to international best practice would allow Senegal to maintain the lowest level of emissions (CO2 and methane) from the oil and gas production process, namely from flaring, which is currently estimated at < 5,3 m3/bbl. (world average in 2021 as per a public domain and regularly updated World Bank database). In a business-as-usual scenario, Senegal is assumed to flare at the same rate as the regional average (Angola, Cameroon, Congo, Gabon, Nigeria) of 13.84 m3/bbl. In addition to the expected emission reductions and their broader impact on



mitigating the negative impacts of climate change on the poor and vulnerable, the proposed PA is expected to also result in positive distributional impacts for the Senegalese population by reducing coastal air pollution that disproportionately affects the population in the areas close to production and processing sites.

PA10: Fostering private sector participation in the economy

87. **Rationale. Senegal has a long history of delivering public services under PPP, especially in the energy generation and urban water provision since the 1990s, and to a more limited extent in ports, road, rail, and airports.** Nonetheless, inconsistencies and gaps in the PPP framework remained a challenge. The PPP Law of 2014 was not applied in practice, with key institutions set out in the law not operational. Moreover, weak public sector capacity has led to over-reliance on private developers to prepare projects without a system for appraisal on the public investment merit of such proposals, and at times on direct negotiation rather than competitive procedures. With renewed government interest to mobilize private sector investment to complement available public financing in order to deliver the PSE PAP2⁷¹, the reforms supported by this series focus on the establishment of an appropriate framework to monitor budgetary and fiscal risks associated with PPPs, ensure transparent and competitive selection of projects, and promote better compliance with PPP Law principles⁷². Recognizing the potential benefits that could derive from financing of key infrastructure using PPP in periods of limited fiscal space, the Ministry of Economy, Planning, and Cooperation (MEPC) has assumed leadership of the PPP Agenda and established a Directorate for Finance and PPPs (DFPPP) to provide strategic leadership.

88. **Substance of the PA and progress in the reform program.** The Recipient made significant progress in establishing an effective framework for private participation in delivering priority public investments and services. The first round of TA, under Public-Private Infrastructure Advisory Facility (PPIAF) funding— with inputs from IFC- supported the MEPC with finalizing the PPP law, preparing the PPP decree, and developing a PPP pipeline. As a result, the GoS adopted a new PPP Law on March 2, 2021, and adopted its PPP Implementing Decree on the 27th of October 2022. Established by the latter, *the National Support Unit for Public-Private Partnerships (l'Unité Nationale d'Appui aux Partenariats Public- Privés, UNAPPP)*— as center for TA along the entire PPP project cycle— was subsequently staffed with experts from the DFPPP. In addition, a project development fund to help contracting authorities with the preparation of PPP projects was recently set up and successfully capitalized. With these measures in place, the implementation of the PPP legal and institutional Framework is nearly completed.

89. **In this context, the proposed PA aims at supporting the Government with finalizing the operationalization of its PPP framework.** This entails the adoption of several of the ministerial orders (Arrêtés) referenced in the PPP law/the PPP decree of 2021 and meant to ensure its application and compliance with its principal objectives, i.e., warranting transparent and competitive procurement processes for the selection of private partners under PPP contracts. Under the new PPP legal framework, a pipeline of currently 56 projects in a range of sectors has been developed with an estimated investment volume of about FCFA 2.6 trillion (about US\$4.1 billion), which the Government published on March 8, 2023. By supporting the operationalization of the PPP law and PPP decree that explicitly define direct negotiation as

⁷¹ The PAP2 targets investment of an estimated US\$3.8 billion under PPP.

⁷² The establishment of the institutional framework for transparent and competitive management of public private partnership projects (PPPs), which is considered a key element to achieve the government's objective to quickly expand the use of PPPs to deliver priority investments under the PSE PAP2.



an exceptional procedure, the prior action supports the use of transparent and competitive processes for the selection of private partners. This complements the transparency measures under PA5- and the second Performance and Policy Action under the SDFP- that advance the establishment of systematic monitoring of budgetary and fiscal risks associated with PPPs.

90. **Expected Results.** The expected result from these reforms is strengthened government control (notably through the UNAPPP) over ensuring that competitive procurement of PPPs (and the inherent principles of fair and transparent treatment of private sector bidders) – as supposed to the previously noted historic prevalence of unsolicited proposals – is adhered to as the norm. Ultimately, effective enforcement of competition in PPP procurement will also help attract further private sector investment in Senegal’s PPP program and hence contribute to the above references PAP2 targets of an estimated US\$3.8 billion to be mobilized through PPPs.

Table 16. Prior action 10 under DPO2

<i>Reforms undertaken under DPO1</i>	<i>Original triggers</i>	<i>Proposed Prior Actions under DPO2</i>	<i>Rationale for changes</i>
<i>PA8: In order to create an effective framework for private sector participation in the delivery of priority public investments and services, the Recipient has enacted a new PPP Law to unify and clarify the legal and institutional framework for PPPs, strengthen PPP processes, and define policies to promote local participation in PPPs, and has adopted its implementing decree</i>	<i>T11: To complete and make operational the legal and institutional framework for PPPs, the beneficiary has (i) published all the ministerial decrees mentioned in the PPP application decree, and (ii) made the National PPP Support Unit (UNAPPP) operational.</i>	<i>PA10: To operationalize the PPP legal and institutional framework, the Recipient has issued the ministerial orders regulating the use of transparent and competitive procurement processes for the selection of private partner(s) for PPP contracts in accordance with both the PPP law and the application decree of 2021.</i>	<i>PA statement streamlined but substance remains unchanged. The new formulation reinforces the need for transparent and competitive selection of private partners under PPP contracts.</i>

Table 17. DPF Prior Actions and Analytical Underpinnings

Prior Actions	Analytical Underpinnings
Pillar 1: Increasing resilience and productivity of households	
Prior action #1	<ul style="list-style-type: none"> National Health Financing Strategy: Toward Universal Health Coverage, 2017. Policy Note on the Universal Health Coverage Program, 2019. <p><i>The Universal Health Coverage program needs reforms to attain financial sustainability, such as a change in the level of risk pooling, stronger MIS systems and tighter targeting of gratuity schemes.</i></p>
Prior action #2	<ul style="list-style-type: none"> Note on the Equity of Social Spending, World Bank 2019. Social Protection Public Expenditure Review, World Bank 2018. Using Adaptive Social Protection to respond to Shocks, World Bank 2018. (P153183). <p><i>Apart from the National Cash Transfer program, the main social programs are poorly targeted and benefit wealthier segments of the population; generalizing the use of the Social Registry would dramatically improve equity of social spending. The social protection system delivers rapid, transparent, and efficient responses to climate and other shocks.</i></p>



<p>Prior action #3- #4</p>	<ul style="list-style-type: none"> • Marzo, Atuesta (2018), SCD background study. • Literature Review produced under the WE-FI project. • World Bank (2019) Women Business and the Law – A Decade of Reform. • Marchetta, F., & Sahn, D. E. (2016). The role of education and family background in marriage, childbearing, and labor market participation in Senegal. <i>Economic Development and Cultural Change</i>, 64(2), 369-403. • World Bank. (2011). World development report 2012: Gender equality and development. <i>The economic empowerment of women is critical for inclusive growth as it results into a more optimal resource allocation and higher factor productivity, while favoring development outcomes in general, particularly for children health and education. In Senegal, lower human capital, high sectorial segregation, and strong discrimination are all factors disincentivizing the productive participation of women in the economy.</i>
<p>Pillar 2: Strengthening transparent and sustainable use of productive resources, and efficient management of fiscal accounts</p>	
<p>Prior action #5</p>	<ul style="list-style-type: none"> • Joint World Bank-IMF Debt Sustainability Analysis January and June 2020. • DEMPA (2018); 2019 World Bank Evaluation of Fiscal Contingent Liabilities (P164596) • Medium-Term Revenue Strategy (P173565). • 2019 Public Expenditure Financial Assessment (PEFA). <p><i>Strong and prudent debt management is needed over the medium term to reduce vulnerabilities; fiscal risks from SOEs and PPPs are substantial and need to be assessed/managed.</i></p>
<p>Prior action #6</p>	<ul style="list-style-type: none"> • Senegal Medium Term Revenue Strategy (2020). • The impact of the tax system on poverty and inequality in Senegal (section on VAT exemptions), World Bank. Draft August 2020. • Bachas, Gadenne, Jensen (2020). Informality, consumption taxes and redistribution. NBER Working Paper • World Bank (2014) “République du Sénégal Remboursement des crédits de TVA Diagnostic initial” Draft. <p><i>VAT mobilization and collection can be improved through improving admin and the rationalization of poorly motivated tax exemptions. Improvements in the audit processes of the VAT refund requests allow for quicker decisions on approval of refunds to private sector.</i></p>
<p>Prior action #7, 8 and #9</p>	<ul style="list-style-type: none"> • World Bank ‘Independent Power Projects in Sub-Saharan Africa. • Independent Power Projects in Sub-Saharan Africa: Lessons from Five Key Countries’, 2016. • Global Regulation of Gas Flaring and Venting: A Comparative Review, Global Gas Flaring Reduction partnership (2022). • Supporting Gas Project Negotiations and Enhancing Institutional Capacities (P160652, ongoing). <p><i>Senegal’s oil and gas industry is still nascent, which represents an opportunity to keep production emissions and the resulting harmful effects on the climate at a minimum, utilize the gas productively and establish the country as a responsible producer. Adopting a suitable regulatory framework to achieve this will define the rules for the sector participants and set the tone for the country’s long-term approach to oil and gas developments.</i></p>
<p>Prior Action #10</p>	<ul style="list-style-type: none"> • Senegal PPP Program Support Technical Assistance (P173897, ongoing). • Senegal Country Private Sector Diagnostic (CPSD) 2020. • ECOWAS Regional InfraSAP (P171771) 2020. • Building PPP Capacity in the UEMOA region (P157587, 2018). • « Cadre PPP pour la participation du secteur privé dans le secteur routier au Sénégal et développement , une stratégie ”investissement dans les transports urbains à Dakar », 2020 (completed under Dakar Bus Rapid Transit Pilot Project, P156186). <p><i>A solid legal and institutional framework is a key foundation for a successful and well-governed PPP program. Its adequate operationalization is key to deliver priority public investments and services.</i></p>



4.3. LINK TO CPF, OTHER WORLD BANK OPERATIONS AND THE WBG STRATEGY

91. **The proposed DPF supports the World Bank’s Senegal CPF for 2020–2024⁷³, the World Bank’s Green, Resilient and Inclusive Development (GRID) strategy and ultimately achieving the WBG Twin Goals.** The CPF reflects Senegal’s Strategic objective of becoming an equitable middle-income economy by 2035. Consistently, this DPF series is closely aligned with the three pillars of the CPF, which focus on making growth more inclusive, competitive, and sustainable. A key objective of the CPF is to support the development of a healthy, skilled, and productive population. By focusing on women empowerment and paying attention to climate-change impacts the DPF is also consistent with cross-cutting themes of gender equality and climate change risk management. The DPF intends to support a rebuilding better approach, directly linking to the GRID approach to recovery through health, social protection, Labor market access reforms (Pillars 1 and 2 of GRID) and boosting private sector access to markets and finance as well as fiscal and debt sustainability (Pillars 3 and 4 of GRID). The operation also addresses several of the priorities outlined in the Systematic Country Diagnostic (SCD) for Senegal⁷⁴, including weak competitiveness in the private sector, inefficiency of social spending resulting in weak human capital, gender inequalities and social norms limiting the productive potential of women. The DPF advances these priorities by focusing on improving the efficiency and targeting of social spending, favoring human capital accumulation and use among women and improving the business environment to unlock the private sector potential to create more jobs. Finally, the proposed reform program supported by this DPF series will enable gains in poverty reduction and shared prosperity, the twin goals of the WBG, while fostering dynamic and equitable growth.

4.4. CONSULTATIONS AND COLLABORATION WITH DEVELOPMENT PARTNERS

92. **Consultations have been held on key reforms to be supported under this program and some of the expected results will be socialized in the forthcoming months.** The process leading to the drafting of the Startup Law and Decrees by GoS was initiated by the Policy Hackathon of 2018, facilitated by the World Bank, where more than 60 players of the entrepreneurial ecosystem in Senegal were brought together to develop the Startup Act (covering the Law and Decrees). In developing the PPP Law, the MEPC consulted and received comments from stakeholders, which included potential private sector investors and expert advisors, as well as development partners. In revising the Public Procurement code, a seminar was organized by the ARMP to gather inputs from local authorities, civil society, the private sector, and development partners. The adoption of the electricity code has benefited from wide consultation within the Government and during a workshop organized with the private sector, civil society, and deputies of the National Assembly on June 10th, 2021. The application decrees of the Electricity Code were discussed with stakeholders during a workshop, held on November 3rd, 2022, and amendments were made based on their observations. A consultation workshop was held with the main actors involved in the implementation of the UHC (around 50 stakeholders). Observations made during the workshop were then submitted by the Secretary General of the Ministry of Community Development to the General Delegation for Social Protection and the General Directorate of Community Development for advice and comments.

93. **The proposed reform program has been prepared in close collaboration with other development partners.** The World Bank team consulted with a range of development partners including the IMF, the

⁷³ Report No 143333-SN

⁷⁴ World Bank 2018.



African Development Bank (AfDB), the Japan International Cooperation Agency (JICA), the French Development Agency (*Agence Française de Développement*, AFD), the European Union (EU), and the German cooperation (KfW) as part of their budget support operations in similar areas. Notably, both JICA and KfW are planning budget support operations for respectively US\$100 million and US\$68 million to be disbursed during the second or third quarter of 2023. They consulted with the World Bank to prepare their matrix of reforms. AFD on April 20, 2023 approved a budget support credit to Senegal for US\$165 million with a focus on youth employment. Social safety nets and social protection reforms in general were discussed with the IMF, the EU, and the German cooperation. Consultations with the German cooperation assure synergies across policy areas including labor market (specifically access for women to economic opportunities), fiscal, and private sector reforms. Fiscal policy and debt management reforms are also highly consistent with IMF engagement under the PCI. Close collaboration with the IMF in the context of the DSSI and preparation of DSAs or the MTRS provides a constant platform for technical exchange. Reforms on the PPP are consistent with the AfDB's priorities on their budget support operation. Finally, joint meetings were held both with the Government officials and development partners to discuss a common matrix of reforms.

5. OTHER DESIGN AND APPRAISAL ISSUES

5.1. POVERTY AND SOCIAL IMPACT

94. **Overall, the policy and institutional reforms supported under the proposed DPF are expected to improve the resilience of households, reduce gender gaps, improve the efficiency and redistributive impact of government taxes and transfers, increase private investment and employment, and reduce both monetary and multidimensional poverty.** All the policy actions in Pillar 1 aimed at increasing resilience and productivity of households are expected to have positive social impacts. The policy actions under Pillar 2 aimed at strengthening transparent and sustainable use of productive resources, and efficient management of fiscal accounts are not expected to have short term poverty and social impacts but could have positive medium to long term impacts by opening fiscal space for pro-poor spending, reducing the cost of electricity supply and generating higher investment and more productive jobs. In the following paragraphs, the analysis for these impacts is summarized. Detailed poverty and social impact analysis for each prior action is presented in Annex 5.

95. **Adopting regulations to improve access to health services for the poorest populations (PA1) is expected to enable the expansion of Senegal's UHC, thus reducing multidimensional poverty.** These regulations are expected to allow for an expansion of UHC from 49 to 60 percent, reducing multidimensional poverty and increasing the resilience of households to shocks. Moreover, by continuing the current targeting of the UHC coverage, including the PNBSF beneficiaries, it is expected that the proposed expansion leads to disproportional benefits for the poorest households. Simulations find that the expansion will lead to a 7 percentage points increase in the coverage rate of UHC for the poorest decile and slightly above one percent for the richest decile of the income distribution. While non-contributory free healthcare scheme, Plan Sesame, which is targeted to the elderly population, is expected to have a similar pro-poor pattern, the free healthcare scheme targeted to children under the age of 5 years is expected to have a more uniform allocation pattern, with similar increases in coverage for members of rich and poor households. To the extent that the expansion of UHC will increase noncontributory benefits to vulnerable populations, it is also expected to reduce monetary poverty and inequality.

96. **Similarly, actions to establish and regulate the National Cash Transfer Program (PA2) are expected**



to have positive poverty and social impacts. A clearer institutional framework for regular and shock-responsive cash transfer programs is expected to protect households from shocks that disproportionately affect the poor in Senegal. Moreover, adoption of the regulations supported by this prior action is expected to improve the redistributive impact of social programs and lead to a reduction in poverty through improved targeting. By designating the RNU as the main targeting and coordination instrument across sectors, the prior action is expected to increase the share of benefits targeted to the bottom of the distribution, while the recertification of existing PNBSF beneficiaries is expected to reduce inclusion errors. Microsimulations of the reform find that the expansion in coverage leads to a decline in poverty and inequality, particularly if the RNU is used to target beneficiaries. An expansion of PNBSF by 100 thousand households reduces poverty by 0.19 percentage points when using RNU information, which is about three quarters more than the reduction obtained when using only spatial targeting. The reduction in inequality is about five times greater when using the RNU compared to spatial targeting.

97. **Actions to increase access to economic opportunities for women (PA3) and to increase young mothers' chances of completing their studies during and following a pregnancy (PA4) are expected to have positive poverty and social impacts.** Policy actions aimed at facilitating access to Public Procurement for female-led firms are expected to reduce discrimination toward female entrepreneurs, potentially allowing high-productivity firms to grow, leading to higher employment and overall welfare, while reducing gender gaps. Similarly, policy actions aimed at integrating pregnant teens and young mothers back into the educational system are expected to lead to higher educational attainment among women, not only reducing gender gaps, but also having subsequent positive impacts on their labor force participation, income generating potential, child health, poverty, and inequality.

98. **The policy actions in Pillar 2 aimed at strengthening transparent and sustainable use of productive resources, and efficient management of fiscal accounts are not expected to have short term poverty and social impacts but will potentially lead to positive impacts in the medium to long run.** First, enhanced risk management (PA5) is expected to have only indirect effects on wellbeing, by increasing investor confidence, reducing fiscal risks, and maximizing savings. However, any savings resulting from improvements in fiscal management can have positive medium- and long-term effects by opening fiscal space for priority social spending and productivity-enhancing public investment. Second, the rationalization of tax expenditures (PA6) is not expected to have large impacts on the poor and vulnerable because it is directed at eliminating VAT exemptions of goods largely consumed by high income households, namely electricity consumption above the social tranche and non-medical spending in private hospitals. Microsimulations eliminating these two exemptions find that VAT revenue would increase by 0.1 percentage points of GDP, with minimal impacts on poverty and inequality in 2023. These actions are expected to improve the redistributive impact of fiscal policy and combined with increased coverage of the cash transfer program (detailed in PA2), are expected to have net positive poverty and social impacts.

99. **Policy actions aimed at increasing resilience of firms for productive jobs are expected to have limited impacts in the short term, but potentially positive poverty and social impacts in the medium to long term.** Actions to complete and operationalize the PPP legal and institutional framework (PA10) are expected to have positive indirect effects on wellbeing in the medium to long term, by mobilizing private investment, thus potentially increasing employment in the medium term.

100. **Finally, actions being supported in the energy sector are expected to have positive medium to long**



term social impacts as they will reduce the cost of electricity supply, thus reducing the need for subsidies and tariff increases. The proposed measures under PA7 strengthen the use of competitive procurement and enhance the transparency of decision-making, thus ensuring that overpriced long-term PPAs are avoided, which will ultimately reduce the cost of electricity. Similarly, implementing decrees for the new gas code (PA #8) are expected to contribute to reducing costs and ensuring the sustainability of the sector. Lower electricity costs will have positive direct impacts on households, and indirect impacts through higher private investment and employment opportunities in the medium to long run. Moreover, a lower cost of supply will reduce the need for electricity subsidies, opening up the fiscal space for improved social services and an expansion in electricity coverage to poorer populations. Beyond reducing costs, greater competition and transparency supported under this reform could lead to improvements in the quality of electricity service delivery. Finally, efforts to curtail flaring and venting (PA#9) are expected to have positive impacts on human health and household welfare.

5.2. ENVIRONMENTAL, FORESTS, AND OTHER NATURAL RESOURCE ASPECTS

101. **Senegal has legal and technical capacity to address environmental challenges raised in this operation.** The Authorities have the necessary legal framework (environmental code [no 2001-01 of January 2001] and related decrees), an institution, Direction of the Environment and Classified Establishments (*Direction de l'Environnement et des Etablissements Classés* (DEEC)) in charge of the EIA process from screening to Oversight and a national committee for environmental and social monitoring (CRSE) involved in oversight. The Environmental Code lays down the principles for sound environmental management of hazardous waste, biomedical waste and other types of waste to minimize their impact on the environment. There are other supporting legal instruments such as Decree No 2010-1281 that forbid the importation of lead in batteries, mercury, chemical waste, dangerous and other wastes without prior authorization of the Minister responsible for Environment. The Decree No. 2008-1007 dated August 18, 2008, also regulates the management of biomedical waste alongside law no 83-71 of July 5 1983 on hygiene and law no 98-08 of March 02, 1998 on the hospital reforms to control waste. The legal framework in place is adequate for mitigating the effects of expanding universal access to health and use of medications. The operation also supports strengthening of emerging challenges such the revision of the Environmental Code to address gas flaring.

102. **In general, the reforms and policy actions supported by the proposed operation are not likely to have significant negative impacts on the environment, forests, and natural resources.** Reforms to improve the financial soundness of UHC program, regulating the cash transfer program, facilitating access to procurement by women-led enterprises to empower women; improving international sourcing, transport, and storage of basic health products, and improving the management of qualified personnel), the Labor and Criminal Codes; improved fiscal and debt management, fiscal risk management, VAT and customs collection, startup laws and fiber optics competition will not have negative environmental impacts.

103. **An increase in UHC and access to health care may have a negative impact on the environment, forests, and natural resources through a higher overall production of medical waste.** The government's systems and capacity for managing medical healthcare wastes is weak but is being strengthened through various health operations (the regional disease systems surveillance enhancement phase 1 (154807); investing in maternal, child and adolescent health (P162042); and the COVID-19 response (P173838). In addition, the government's capacity to manage solid waste and hazardous waste is being strengthened through the municipal solid waste management project (P161477) and the environmental health and



pollution management project (P167788).

104. **The energy policy reforms (PA8-9- 10) are likely to have positive environmental impacts as they relate to the shift from carbon intensive Heavy Fuel Oil to a mix of options including natural gas and renewable energy.** In the long run, the Gas-to-Power Strategy, the Gas Code, and the significant institutional arrangements developed under the energy DPF series will result in a net positive environmental impact when natural gas replaces dirtier fuel sources (HFO and coal). The country's systems to enhance positive effects and manage potential adverse effects are adequate as the relevant institutions have the technical capacity in-house (PetroSen) and TA from Power Africa to support the gas sector. The planned revision and adoption of the Environmental Code to curb the routine flaring and venting of natural gas should help manage the potential adverse effects.

5.3. PFM, DISBURSEMENT AND AUDITING ASPECTS

105. **Senegal has embarked on major reforms to strengthen the institutional framework of Public Finance Management (PFM): implementation of the performance-based budgeting in 2020, with budget programs and the gradual deconcentrating of commitment authority to line ministries, in line with WAEMU PFM directive.** In 2020, the authorities have developed a new comprehensive PFM Reform Strategy to strengthen fiscal discipline, credibility, and effectiveness of the public financial management system. In addition, the 2019 Public Expenditure Financial Assessment (PEFA) highlighted the following PFM strengths: (i) the improvement of taxpayer's access to information on their rights and obligations, and the roll out of online tax declaration system which enable greater effectiveness in domestic revenue mobilization; and (ii) the interface of the treasury accounting system with the Central Bank payment system, providing online access to government bank accounts to enhance Treasury management and daily consolidation of cash balances (as a step towards a centralized Treasury Single Account (TSA) operation for improving cash management). Senegal publishes its budget *circulaires*, approved general government budgets and annexes, and quarterly budget execution reports on the website of the MFB to promote transparency. For instance, the budget *circulaire* for 2024 budget was published on February 20, 2024 and contains guidelines for line Ministries to follow⁷⁵. Finally, in 2021, fiscal transparency is set to improve via the publication of series of execution report and audit of the Program of economic and social resilience.

106. **Despite the above progresses, a number of PFM issues remain to be addressed⁷⁶.** The latest 2018 IMF Safeguard Assessment of BCEAO remains valid, the foreign exchange control environment is satisfactory. BCEAO publishes a full set of audited financial statements. The auditors have issued an unqualified opinion on the 2020 annual financial statements. Improvements continue to be made to move financial reporting closer to International Financial Reporting Standards (IFRS). The recent report of the "Cour des comptes" (supreme audit institution) on the management of COVID-19 funds still highlighted major weaknesses in the entire chain of public financial, especially in terms of (i) mobilization of funds and public expenditures efficiency; (ii) internal controls; and (iii) control and management of tax exemptions and subsidies. These

⁷⁵ <https://budget.sec.gouv.sn/>

⁷⁶ These include: (i) delayed expansion of the deconcentrating commitment control to all public entities as recommended by the WAEMU PFM directive, (ii) while the budget is published annually, it does not yet include a current and comprehensive fiscal risks statement which includes climate change risks, PPP risks and SOE fiscal risks, (iii) significant delay encountered in the operationalization of the new IFMIS system developed with the technical and financial support of the World Bank, (iv) delayed implementation of the 2020-2025 Medium Term revenue strategy, and new PFM strategy action plan.



weaknesses appeared in a context of crisis where emergency procedures were used. However, some of the findings of the report demonstrate the importance of tackling remaining public financial management issues in an ordinary context.

107. **The credit will follow IDA's disbursement procedures for DPF.** Once the financing agreement becomes effective, and upon receipt of a withdrawal application, and provided IDA is satisfied with the program being carried out by the Government and with the appropriateness of the country's macroeconomic policy framework, the proceeds of the Credit will be deposited by IDA into an account designated by the GoS at the BCEAO, where they will form part of the country's official foreign exchange reserves. The Government will be credited the local currency equivalent in the dedicated treasury account (at the Central Bank) which forms part of its budget resources using the prevailing exchange rate. As a due diligence measure, IDA will obtain confirmation from the Government indicating (i) the sum of the proceeds received into an account of the government (including the date and the name/number of the government's bank account in which the amount has been deposited); and (ii) an equivalent amount accounted for in the country's budget management system (including the Chart of Accounts name/account number, the date of transfer, and the exchange rate used). Confirmation will be expected within 30 days of disbursement.

108. **Auditing.** The World Bank reserves the right to seek an external audit of the designated account by independent auditors acceptable to World Bank, and the audit report shall be submitted to the World Bank within four months after the deposit. If the proceeds of the financing are used for ineligible purposes as defined in the Financing Agreement, the World Bank will require the Borrower to (a) apply the corresponding amount to eligible purposes or (b) promptly refund an equal amount to the World Bank. Amounts refunded to the World Bank upon such request shall be cancelled.

5.4. MONITORING, EVALUATION AND ACCOUNTABILITY

109. **Monitoring and Evaluation (M&E) arrangements remain as in previous DPF operations.** The MFB is the main counterpart for monitoring program implementation. The WBG and the MFB set up two mechanisms for close follow up and monitoring of program implementation: a high-level Steering Committee, led by the MFB Secretary General, and technical committees, led by a Technical Advisor of the Minister. The Steering Committee, which meets frequently, brings together all involved institutions both at the executive and technical levels, allowing to identify delays and bottlenecks, and to define alternative solutions and responsibilities. The Technical Committees, across all sectors involved (including health, social protection, Labor-markets/women/equality and justice, finance, and economy/private sector), meet on an ad hoc basis. Their meetings alternate with the Steering Committee and follow up on the day-to-day progress in the reform program while identifying higher-level difficulties to be brought to the Steering Committee's attention. Continued policy dialogue and built in M&E arrangements throughout complementary WBG projects (Program for Results (PforR), TA, Investment lending) provides for complementary layers of accountability. Recent evaluation of World Bank engagement under DPO series points towards severe risks to sustainability of development outcomes, notably in the energy and ICT sectors. Some of the design weaknesses emphasizes include poor data collection to verify results indicators and poor sector oversight over implementation of reforms at local level.

110. **Grievance Redress.** Communities and individuals who believe that they are adversely affected by specific country policies supported as Prior Actions or tranche release conditions under a World Bank



Development Policy Financing may submit complaints to the responsible country authorities, appropriate local/national grievance mechanisms, or the Bank's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address pertinent concerns. Project affected communities and individuals may submit their complaint to the Bank's independent Accountability Mechanism (AM). The AM houses the Inspection Panel, which determines whether harm occurred, or could occur, as a result of Bank non-compliance with its policies and procedures, and the Dispute Resolution Service, which provides communities and borrowers with the opportunity to address complaints through dispute resolution. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit <http://www.worldbank.org/GRS>. For information on how to submit complaints to the Bank's Accountability Mechanism, please visit <https://accountability.worldbank.org>.

6. SUMMARY OF RISKS AND MITIGATION

111. **The overall risk rating of the operation is substantial.** Macroeconomic, sector strategy and policy, and institutional capacity for implementation and sustainability have increased substantially in the wake of the COVID-19 pandemic and remain elevated due to the enduring exogenous shocks linked to the protracted Russia's invasion of Ukraine, global tightening of interest rates, elevated international prices of Senegal's imports and- to a lesser extent, possible exposure of the population to new variants of COVID-19 due to low levels of vaccination (16.6 percent of population older than 15 years). In addition, political and governance risks as well as fiduciary risks have increased substantially in recent months, linked to recent revelations of mismanagement of public funds allocated to the COVID-19 response, and in the run up to the next presidential elections (2024).

112. **Political and governance risk is rated substantial.** While Senegal has long tradition of political stability, social tensions worsened ahead of the 2022 parliamentary elections. The publication of an audit at the end of 2022 of the COVID-19 response that highlighted mismanagement of public resources has exacerbated social discontent. In addition, the political climate has become more polarized as we approach the Presidential Elections, planned for February 2024. Social and political tensions are expected to remain high in the lead up to the 2024 presidential elections. The President is expected to announce his candidacy for a controversial third term. The pre-election period is expected to reduce government's appetite for launching new reforms and implementing the reforms already adopted, including those supported under this DPO. Given the correlation between elections, reforms and social tensions, key mitigation factors include a strong communication campaign, already envisaged by the Government, to convey several messages to the public: the need to return to a path of fiscal consolidation to build buffers to face new shocks in the future, a transparent budget process and a credible review of the PFM system, relatively strong fiscal management, and continued policy dialogue on strengthening sector governance including PFM, regulatory quality and competition.

113. **Macroeconomic risks remain substantial.** Risks are linked to sustained fiscal deficits, which are contributing to rapid debt accumulation, the weight of energy subsidies- which is crowding out social investments- and elevated inflationary pressures and their impact on real incomes. Economic slowdown and the persistence of terms of trade shocks could impact the government's ability to promote equitable growth and achieve its fiscal targets. Global tightening of interest rates is likely to weaken the appetite for private



sector investments and FDI inflows and thus jeopardize some of the expected results from the DPF program. To mitigate the macroeconomic risks, the government's decision not to borrow from the Eurobond market, the announcement to cap of energy subsidies at 2.4 percent of GDP and the introduction of tax policy measures to redistribute wealth in support of vulnerable households are important steps in the right direction. The successful completion of the IMF PCI and SBA program and request for a new program could contribute to the implementation of prudent macroeconomic policies, together with the government's continued commitment to fiscal discipline and debt sustainability, anchored in the WEAMU's fiscal target, and the support of the BCEAO's monetary policy.

114. Sector Strategy and Policy risks remain substantial. Institutional arrangements in the health and social protection sectors remain fragile and volatile, with repeated changes in the anchoring of the main programs in the last five years. The proposed reforms under Pillar 1 will contribute to streamlining and rationalizing social expenses through periods of crisis, strengthening their targeting and efficiency. The telecommunications and energy sector policy reforms could be affected by repercussions from reduced or delayed investment activity, pressures on prices/tariffs in face of increased economic and social pressures, pressures from vested interests, pre- and post-electoral stalemate of the Government's reform agenda, or changes in profitability and timeline of important gas investment projects. In the power and gas sectors, further efforts will be needed to consolidate the progress made on the transparency and competitiveness of public procurement under this operation. The GoS will need to carefully monitor and assess⁷⁷ effectiveness and efficiency of the new regulatory framework against the objectives of the proposed program. Then, based on the findings of the evaluation period, the Government will likely need to revise both electricity and gas codes to eliminate any discrepancies with the implementation decrees adopted under PAs 7 and 8 (bringing the codes in line with the decrees). The revision would be concluded by the submission to the National Assembly of all amendments to the electricity and gas codes necessary to resolve any issues identified during the evaluation period and ensure perfect coherence between existing legislation and the new implementing regulations adopted under this operation. Otherwise, if risks materialize, the country will have missed the opportunity to achieve the large cost reduction potential of a least cost development transition. The new PPP framework explicitly exempts key regulated sectors including energy and telecom, leaving transparency and competition aspects to sector regulation and strategy. Continued policy dialogue and engagement, including through the Sustainable Development Finance Policy, and in coordination with the IMF, will attempt to mitigate risks and assure progress on private sector participation in key sectors.

115. Institutional Capacity for Implementation and Sustainability risks are substantial. These are characterized by slow bureaucratic processes and coordination issues within the Government, between Government and SOEs, and with regulating agencies, as well as bottlenecks at the decision-making level. Delays in implementation and, at times, policy stalling or partially regressing on previously-implemented reforms – as observed during implementation of past DPOs and the first operation of this series, have become more likely. The close supervision by field-based staff, complementary investment financing projects and continued TA in key sectors will help mitigate this risk.

116. Fiduciary risks are substantial. The expected increase in VAT refunds thanks to the revised legal framework could increase the likelihood for VAT fraud. The stock of VAT credits has quadrupled since 2017 reaching more than 0.6 percent of GDP in 2022, highlighting the need for more careful assessment and strengthening of auditing processes. The December 2022 Court of Accounts' audit on the use of the COVID-

⁷⁷ During an evaluation period of 6-9 months.



19 relief funds revealed severe weaknesses in the internal controls and procurement procedures, given the extensive use of direct transfers to public entities with limited control over the use of funds. Similarly, there are concerns regarding the lack of a clear criteria for the selection and execution of public investment projects (PIP) as well as the lack of verification of spending of funds transferred to public agencies (PIMA 2023). To mitigate the risks, the World Bank will collaborate with other development partners such as the IMF to adopt a road map to address the PFM weaknesses identified in the COVID-19 audit report and the 2023 PIMA report, encourage the Government to eliminate all Treasury accounts used by entities without legal status and to improve transparency.

Table 18. Summary Risk Ratings

Risk Categories	Rating
1. Political and Governance	● Substantial
2. Macroeconomic	● Substantial
3. Sector Strategies and Policies	● Substantial
4. Technical Design of Project or Program	● Moderate
5. Institutional Capacity for Implementation and Sustainability	● Substantial
6. Fiduciary	● Substantial
7. Environment and Social	● Moderate
8. Stakeholders	● Moderate
9. Other	● Moderate
Overall	● Substantial



ANNEX 1: POLICY AND RESULTS MATRIX

Policy Areas	DPF1 – Prior Actions (PA)	DPF2 – Prior Actions (PA)	Results Indicator (RI)		
				Baseline 2020*	Target 2024*
Pillar 1 - Increasing resilience and productivity of households					
1. Increasing access to basic health products and services.	PA1: To reinforce the sustainability of health insurance , the Recipient has decided to progressively deploy in all public health structures a unified information system for case management and financial monitoring of the Universal Health Coverage (UHC).	PA1: To improve access to health services for the poorest and strengthen the financial soundness of the UHC program , the Recipient has: (i) issued a decree regulating the support to the beneficiaries of the PNBSF under the UHC program and (ii) adopted a revised statute for the PNA which facilitates the purchase of drugs on international markets.	RI1: Health insurance coverage rate (percent).	49	60
2. Institutionalizing and consolidating the national social protection system.	PA2: To improve equity and efficiency of social expenditures , the Recipient has established a regulatory framework for the Unified Social Registry which is becoming the mandatory targeting tool for all social policies, including climate and other shock-response programs, and has regulated its use by ministries and agencies.	PA2 To improve the quality of the social protection system , the Recipient (MDCEST) has: i) adopted a ministerial order through MDCSNEST establishing and regulating the National Cash Transfer Program (PNBSF) that clarifies eligibility criteria, program duration and exit strategy ⁷⁸ ; and ii) published a presidential decree establishing the	RI2: Total number of households registered in the RNU.	250,000	1,000,000

⁷⁸ The exit strategy is for households that no longer qualify for the program. The list of beneficiaries who no longer meet the criteria will be compiled at the time of publication of the ministerial order and will exit the program in 2024 when the ministerial order will become effective.



Policy Areas	DPF1 – Prior Actions (PA)	DPF2 – Prior Actions (PA)	Results Indicator (RI)		
			Baseline 2020*	Target 2024*	
		<i>organization and operating rules of the DGPSN).</i>			
3. Improve women’s access to human capital and labor markets.	PA3: To reduce discrimination against women in the labor market, the Recipient has (i) approved and transmitted to its National Assembly draft legislation amending the Labor Code to (a) prohibit gender discrimination in employment; and (b) prohibit and sanction pregnancy-related considerations when recruiting, dismissing, or transferring a woman to another position; and (ii) adopted a Decree amending Regulation (Arreté) No. 5254 IGTLs / AOF to remove restrictions on non-pregnant women's work	PA3: To increase access to economic opportunities for women, the Recipient has revised the Public Procurement Code decree to introduce definitions and measures to facilitate women-led enterprises access to public procurement.	RI3: Increase in share of the value of public procurement contracts available to female-led firms.	n.a	2%
		PA4: To improve girls access to education, the Recipient has adopted a Ministerial Order establishing the right of girls to continuing education while pregnant and reinforcing their rights to be reintegrated into school after pregnancy for those who dropped out.	RI4: (a) Share of pregnant schoolgirls receiving support to pursue their studies. (b) Share of pregnant schoolgirls beneficiaries of support for school continuation who	0%	80%
				0%	70%



Policy Areas	DPF1 – Prior Actions (PA)	DPF2 – Prior Actions (PA)	Results Indicator (RI)		
				Baseline 2020*	Target 2024*
			<i>pursue their studies.</i>		
Pillar 2 – Strengthening transparent and sustainable use of productive resources and efficient management of fiscal accounts					
4. Improving debt and fiscal risk management	PA4: To improve effective debt management , the Recipient has created a framework for the mandatory annual monitoring of the implementation of the multi-annual MTDS, which describes the scope, timing, procedure, and disclosure of the annual implementation report, and adopted and published its MTDS for 2021-23 and validated the borrowing plan for 2021 (covering all domestic and external debt under the control of the central government).	PA5: To improve the management of budgetary risks , the Minister of Finance has adopted an Arrêté defining measures and associated implementation modalities to provision for fiscal risks quantified in its Fiscal Risks Assessments (FRA).	RI5: (a) Cumulative number of fiscal risk assessments published since 2021. (b) Cumulative number of MTDS reports published since 2021.	0 [2019]	3
5. Increasing tax revenue and strengthening liquidity of private sector.	PA5 To increase efficiency of VAT administration , the Recipient has included in its budget law the acceleration of the VAT credit refund procedures.	PA6: To increase the efficiency of tax expenditures while protecting the poor and vulnerable , the Recipient has removed VAT exemptions on: (i) electricity consumption for households whose consumption exceeds the social tranche; and (ii) non-medical services delivered in private healthcare institutions.	RI6: VAT Revenues (percent of non-oil GDP).	5.7	6.3
6. Empowering the private sector and digital technology.	PA6: To increase access to finance for startups , the Recipient has adopted a regulatory framework for the promotion and financing of startups pursuant to		RI7: a) Number of certified startups. b) Number of	0 [2019]	50
				0 [2019]	5



Policy Areas	DPF1 – Prior Actions (PA)	DPF2 – Prior Actions (PA)	Results Indicator (RI)		
			Baseline 2020*	Target 2024*	
[in collaboration with IFC]	<i>which, as a matter of general principle, public financing shall be combined with and leverage private resources for the financing of startups.</i>		<i>certified and professionally managed startup financing mechanisms.</i>		
	PA7: To facilitate the further delegation of the management of the state-owned fiber optic assets to the private sector, the Recipient has enacted the law authorizing the establishment of a new holding company and adopted the regulations authorizing the transfer to the new company of: (i) the assets of ADIE and (ii) the State-owned fiber optic assets.		RI8: Fixed broadband penetration rate (% of the population).	0.94% [2019]	1.8%
7.Strengthening the efficiency of the energy sector.		PA7: To further strengthen the use of competition and improve the transparency of decision-making related to public procurement, the President has signed a Decree establishing the procedures for awarding agreements and licenses related to regulated activities associated with the Electricity Code and defining the provisions and procedures for (i) the processing of unsolicited bids, (ii) the processing of	RI9: Share of total generation capacity in each year procured in line with the specific provisions of the Electricity Code’s implementation decree and in line with LCDP.	<10%	100%



Policy Areas	DPF1 – Prior Actions (PA)	DPF2 – Prior Actions (PA)	Results Indicator (RI)		
			Baseline 2020*	Target 2024*	
		<i>direct agreements, and (iii) the awarding of a contract by the contracting authority through a direct agreement procedure in the event of a negative opinion by the regulator.</i>			
		PA8: To reduce costs and increase sector sustainability, the Recipient has adopted decrees that implement the Gas Code, defining the legal and regulatory framework for investment in the midstream and downstream segments of the gas subsector.	RI10: Gas production volume available to the domestic market.	0 standard cubic feet per day	35 million standard cubic feet per day [2025]
		PA9: To reduce routine flaring and venting emissions (CO2 and methane) in the oil and gas production process, the Recipient has submitted to the National Assembly a supplemental proposal to amend the Environmental Code that specifies provisions to limit routine flaring and venting of natural gas, including the regime specifying exceptions and penalties for non-compliance.	RI11: Flaring from the start of commercial oil and gas production. ⁷⁹	Average of 13.84 m ³ /bbl. (regional avg). of flare gas per barrel of oil produced	< Average of 5.3 m ³ /bbl. of flare gas per barrel of oil produced

⁷⁹ Baseline: 13.84 m3 of flare gas per barrel of oil produced is the estimated business as usual flaring intensity on the basis of the regional average (Angola, Cameroon, Congo, Gabon, Nigeria). Target: 5.3 m3/bbl. is the world average in 2021.



Policy Areas	DPF1 – Prior Actions (PA)	DPF2 – Prior Actions (PA)	Results Indicator (RI)		
			Baseline 2020*	Target 2024*	
8. Fostering private sector participation in the economy	PA8: To create an effective framework for private participation in delivering priority public investments and services, the Recipient has enacted a new PPP law to unify and clarify the legal and institutional framework for PPPs; strengthens PPP processes; and sets out policies to promote local participation in PPPs; and adopted its implementation decree.	PA10: To operationalize the PPP legal and institutional framework, the Recipient has issued the ministerial orders regulating the use of transparent and competitive procurement processes for the selection of private partner(s) for PPP contracts in accordance with both the PPP law and the application decree of 2021.	R12 Proportion of PPP transactions reaching commercial close following competitive procurement in accordance with the PPP law, the PPP decree and the ministerial orders.	0% [2021]	100%

*: Result indicator baseline and target year are specified in brackets next to result indicator values if they differ from 2020 and 2024, respectively.



ANNEX 2: IMF RELATIONS ANNEX

PRESS RELEASE NO. 23/02 <https://www.imf.org/en/News/Articles/2023/01/09/pr2302-imf-exec-board-6th-rev-pci-3rd-rev-sbc-fac-sba-post-fin-assess-senegal>

IMF Executive Board Completes the Sixth Review and Final Under the Policy Coordination Instrument, the Third and Final Reviews under the Stand-By Credit Facility and the Stand-By Arrangement, and Initiates Post Financing Assessment with Senegal

January 9, 2023

- Weaker external demand, soaring food and energy prices, tightening financial conditions, and US dollar appreciation have negatively impacted the Senegalese economy.
- As a result, economic activity has slowed in the first nine months of 2022, leading to a modest downward revision of growth projection. Inflation, however, remained stubbornly high, mainly reflecting rising food prices, and is becoming more broad-based as the non-food and non-energy subcomponents of the CPI are also accelerating.
- Rebuilding fiscal buffers and putting public debt on a downward path remain a priority going forward, through an accelerated implementation of the domestic revenue mobilization strategy and the gradual phasing out of energy subsidies.

Washington DC: Today, the Executive Board of the International Monetary Fund (IMF) completed the Sixth and Final Review under the Policy Coordination Instrument (PCI) and the Third and Final Reviews under the SBA and the Arrangement under the SCF. The completion of the reviews enables the immediate release of about US\$215.96 million (SDR 161.8 million, or about FCAF 133 bn) to Senegal. Weaker external demand, rising food and energy prices, tightening financial conditions, and the US dollar appreciation have negatively impacted the Senegalese economy. The country is facing multiple challenges, including heightened regional insecurity and growing social demands amid soaring cost of living. As a result, growth was further revised down to 4.7 percent and inflation up, while the fiscal accounts are under increasing strain.

Despite these challenges, the authorities are committed to keeping the fiscal deficit at 6.2 percent of GDP in 2022, in line with the previous program review, through additional revenue measures and savings to offset larger energy subsidies. The authorities have also committed to accelerate fiscal consolidation to contain the 2023 budget deficit below 5 percent of GDP, while strengthening their response to alleviate the burden of the cost-of-living crisis. To reduce energy subsidies in 2023, the authorities have decided to raise selected electricity and fuel prices, while cushioning the impact on vulnerable households. In addition, the Government has published a roadmap to gradually phase out energy subsidies by 2025. Together with stronger revenue mobilization, these efforts should help rebuild fiscal buffers and put public debt on a firmly downward trajectory over the medium term. Significant progress was achieved in improving transparency and accountability. The audit report of the Court of Accounts on the use of the COVID-19 funds was published and the authorities are considering measures to address expenditure management weaknesses. The adoption of a new public procurement code will also favor more open and



competitive tenders. Finally, the fiscal framework for managing hydrocarbon revenues should be operationalized expeditiously to ensure that these windfalls will benefit Senegal's development.

Medium-term growth prospects appear more favorable with the oil and gas production set to start in late 2023, provided appropriate policies are implemented. However, risks to the outlook remain high and heavily tilted to the downside, including lower global growth, tighter financial conditions, inflationary pressures, more intense and prolonged war in Ukraine, and further US dollar appreciation. Further risks include natural disasters related to climate change and a deterioration of the regional security situation. In this challenging environment, the Fund stands ready to continue supporting Senegal.

Following the final reviews under the PCI, SBA, and SCF, the Executive Board of the International Monetary Fund has decided that Senegal is expected to engage in Post Financing Assessment with the Fund. [\[1\]](#) Following the Executive Board's discussion, Mr. Kenji Okamura, Deputy Managing Director and Acting Chair, issued the following statement:

Performance under the programs has been broadly satisfactory despite multiple shocks, and Senegal successfully completed all the reviews.

However, the economy has slowed, and external imbalances widened amidst negative spillovers on global growth and commodity prices from Russia's war in Ukraine. Inflation has accelerated, fueled by soaring food prices, and food insecurity has increased. While the challenging external and domestic environments will continue to weigh on the economy in the near term, medium-term macroeconomic prospects appear more favorable with oil and gas production set to start in late 2023 and provided appropriate policies are pursued.

The authorities have provided extensive support to households and firms to mitigate the impact of these shocks, including through untargeted and costly energy subsidies. The recent increase in electricity and fuel prices is well targeted and will help contain the regressive nature of these subsidies. Over the medium-term, the authorities should steadfastly implement their roadmap to gradually eliminate energy subsidies by 2025 while adopting measures to protect vulnerable households.

A strong commitment to revenue mobilization will be critical to reduce the budget deficit to 3 percent of GDP by 2025, rebuild depleted buffers, and set public debt on a downward trajectory. Strengthening debt management and monitoring state-owned enterprises' borrowing are equally important.

While the adoption of a new procurement code will help reduce recourse to noncompetitive tenders, reforms to improve fiscal transparency and accountability should continue, including to address expenditure management weaknesses identified in the recent audit report on the use of COVID-19 funds. Finally, deficiencies in the AML/CFT framework need to be tackled with greater urgency to minimize risks to the financial sector and thus the economy.

[\[1\]](#) The central objective of PFA is to provide for closer monitoring of the policies of members that have substantial Fund credit outstanding following the expiration of their arrangements. Under PFA, members undertake more frequent formal consultation with the Fund than is the case under surveillance, with a particular focus on macroeconomic and structural policies that have a bearing on external viability.



ANNEX 3: LETTER OF DEVELOPMENT POLICY



REPUBLIQUE DU SENEGAL
Un peuple – Un But – Une foi

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MINISTERE DES FINANCES
ET DU BUDGET

Financement programme sous forme d'appui budgétaire
de la Banque mondiale

Lettre de Politique de Développement

Avril 2023





La présente lettre de politique sectorielle comprend une revue des récents développements macroéconomiques au Sénégal (A) et les réformes multisectorielles de l'opération d'appui budgétaire (B).

A. Développements macroéconomiques récents

L'activité économique mondiale a subi, en 2022, un ralentissement généralisé et plus marqué qu'attendu, avec une inflation qui atteint des niveaux jamais vus depuis plusieurs décennies. Le renchérissement du coût de la vie, le durcissement des conditions financières dans la plupart des régions, la crise russo-ukrainienne et les effets persistants de la pandémie de COVID-19 sont autant de facteurs qui pèsent lourdement sur la croissance mondiale. Les prévisions du Fonds monétaire international (FMI) du mois de janvier 2023 tablent sur une croissance de l'activité économique mondiale de 3,4% cette année contre 6,2% en 2021, soit un repli de 2,8 points de pourcentage imputable notamment à la révision à la baisse de l'activité économique aux Etats-Unis, en Chine et en Europe. Au Sénégal l'activité économique est attendue en hausse d'environ 4% en 2022 contre 6,1% en 2021. Ce taux de croissance est notamment expliqué par la contraction notée des produits agricoles d'exportation et au recul plus prononcé que prévu de la production industrielle en 2022.

En 2022, le taux d'inflation était de 9,7 % en moyenne annuelle expliquée notamment par la hausse des prix des produits alimentaires (+ 15%). L'inflation sous-jacente (hors énergie et hors produits alimentaires), elle, a atteint 3.5% en 2022. En glissement annuel, l'inflation a atteint son pic de 14,2 % en novembre 2022 et a depuis lors graduellement décliné pour s'établir à 9,5 % en février 2023.

La hausse des prix mondiaux des produits alimentaires et l'appréciation du dollar américain ont impacté la position extérieure en 2022. Le solde du compte courant s'est détérioré pour atteindre 19,6 % du PIB en 2022, reflétant une forte détérioration de la balance commerciale (-17,9 % du PIB), laquelle a été partiellement atténuée par une réduction du déficit des services, en rapport avec la baisse des importations expliquée par l'achèvement des projets pétroliers et gaziers.

La masse monétaire s'est accrue de 21,6% en 2022, tirée par une forte hausse du crédit intérieur. La position extérieure nette a baissé de 18,3 %. Quant aux crédits à l'Etat et au secteur privé, ils ont respectivement augmenté de 51 % et de 20 %. Sur la même période, le stock de prêts improductifs rapporté au total des prêts a sensiblement diminué, revenant à 9,5 % contre 11,8 % en 2021.

Depuis juin 2022, les conditions financières dans le marché sous-régional de l'Union monétaire ouest africaine se sont resserrées. La forte hausse de l'inflation et l'érosion des réserves de change ont amené la BCEAO à augmenter ses principaux taux directeurs depuis juin 2022 et à réduire les demandes de refinancement des banques au taux d'intérêt minimum. Il s'en est suivi une baisse de la demande de titres souverains par les banques et une hausse de leurs taux de rendement.

De manière plus globale, sur la période 2016-2022, le secteur primaire a représenté en moyenne 15,6% du PIB. Il est essentiellement dominé par le secteur agricole qui représente 66,2% en moyenne sur la période. La part de l'élevage tourne autour de 23,5% et celle de la pêche représente 7,2%. La sylviculture et l'exploitation forestière ont la contribution la plus faible, elle se situe autour de 3,0%. La croissance du secteur primaire est estimée à 6,0% en 2022 après -1,0% en 2021 en liaison avec la reprise de l'agriculture (7,7%) et de l'élevage et de la chasse (3,1%). Le taux de croissance du PIB du secteur primaire a été estimé à 6,7 % en moyenne sur la période 2016-2022.





Le secteur secondaire a contribué à 24,2% du PIB nominal estimé en 2022. Les industries extractives ont contribué à la valeur ajoutée du secondaire à hauteur de 18,6% et les industries manufacturières à 61,7%. La construction et l'énergie représentaient, respectivement, 11,9% et 5,4% du secondaire. La croissance du PIB réel du secteur secondaire est estimée à 1,1% en 2022 après 10,9% en 2021, en relation essentiellement avec la chute des activités de raffinage et cokéfaction (-65,3%), de la fabrication de produits métallurgiques (-13,4%) et de la baisse des activités extractives (-3,1%). Le taux de croissance du PIB du secteur secondaire est en moyenne de 5,3% sur la période 2015-2022.

Le secteur des services, ou secteur tertiaire, le plus important dans l'économie sénégalaise, représente 49,3% du PIB nominal estimé en 2022. La croissance du PIB réel dans le secteur tertiaire est estimée à 6,0% en 2022. L'évolution du tertiaire est essentiellement portée par les activités des « services à caractère collectif ou personnel », des « services spécialisés, scientifiques et techniques », et des « services d'hébergement et de restauration », avec des taux de croissance respectifs de 27,9%, 7,2% et 6,2%. Le taux de croissance du PIB du secteur tertiaire est estimé à 4,7 % en moyenne sur la période 2015-2022.

Sur le moyen terme, l'activité économique devrait se redynamiser suite à la conjonction de plusieurs facteurs, notamment une reprise satisfaisante des activités des secteurs secondaire et tertiaire soutenue par la relance des investissements structurants dans le cadre de la poursuite de l'exécution des projets et programmes du PSE inscrits dans le Plan d'actions prioritaires ajusté et accéléré (PAP2A). En 2023, le taux de croissance est projeté à 8,8%. En perspective, le PIB réel du Sénégal devrait connaître une croissance solide au cours des prochaines années soutenue par les premières productions d'hydrocarbures et également une croissance hors hydrocarbures stabilisée à un niveau élevé (près de 6,0% à partir de 2023).

L'exécution budgétaire en 2022 s'est achevée de manière satisfaisante et en ligne avec les engagements souscrits dans le cadre du programme économique et financier conclu avec le FMI. Les recettes fiscales (hors dons, hors fonds et recettes exceptionnelles) sont attendues à [18,1 %] du PIB en 2022. Avec la mise en œuvre des réformes et activités prévues dans le cadre de la Stratégie de Recettes à Moyen Terme (SRMT), l'Etat maintient son objectif d'atteindre un taux de pression fiscale de 20 % en 2024.

Depuis 2011, l'Etat poursuit une politique budgétaire basée sur la réduction du déficit budgétaire à travers l'élargissement de l'assiette fiscale, l'amélioration de l'efficacité du recouvrement des impôts et une rationalisation des dépenses. La Stratégie de Recettes à Moyen Terme (SRMT) est mise en œuvre depuis janvier 2020 et devrait couvrir la période 2020-2025. Grâce à ces efforts, le déficit budgétaire a diminué régulièrement entre 2013 et 2018, en passant de 5,5% du PIB nominal à 3,5%. Ensuite, il s'est relevé à 3,7% en 2019. En 2020, le déficit est finalement passé à 6,4% du PIB nominal, à cause des mesures prises par l'Etat pour faire face aux effets de la pandémie de Covid-19. Au titre de l'année 2021, le déficit budgétaire est ressorti à 6,3% du PIB conformément aux prévisions de la deuxième Loi de Finances rectificative (LFR2).

En 2022, l'exécution du budget a été en ligne avec les objectifs, avec un déficit budgétaire global de 6,3 % du PIB, dans un contexte de renforcement du soutien au pouvoir d'achat des ménages avec la suspension de certaines taxes sur les produits de première nécessité (riz, farine de blé, etc.) et d'augmentation substantielle des subventions, notamment celles sur les produits pétroliers à la suite du niveau élevé du cours du pétrole accentué par la guerre en Ukraine. En effet, le déficit budgétaire, initialement prévu à 5,4% du PIB dans la première Loi de Finances rectificative (LFR1) pour soutenir le pouvoir des ménages en bloquant les prix aux





consommateurs, à la suite du renchérissement des cours mondiaux du pétrole, et financer la relance de l'économie, a été porté à 6,3% dans la LFR2, soit un écart de 0,9% qui est financé par la somme de 196,2 milliards FCFA issu des 246,2 milliards FCFA de Droits de Tirage spéciaux (DTS) du FMI.

En 2023, le déficit budgétaire est projeté à 5,5% dans la Loi de finances initiale. Pour atteindre ce déficit, les autorités ont pris des mesures pour réduire les subventions sur l'énergie en augmentant certains prix de l'électricité et des carburants, tout en atténuant l'impact sur les ménages vulnérables grâce à des mesures sociales ciblées. L'Etat a publié une feuille de route dont l'objet est d'éliminer les subventions dans le secteur de l'énergie à l'horizon 2025.

Ces efforts combinés à une meilleure mobilisation des recettes permettront de reconstituer les marges budgétaires et de placer la dette publique sur une trajectoire clairement descendante à moyen terme.

La dette publique globale, intégrant les entités du secteur parapublic, s'est élevée à 12 956 mds FCFA (soit 75,0% du PIB) à la fin de 2022. Elle a augmenté de 1 355 mds FCFA, en raison du déficit budgétaire, des prêts à des entreprises publiques ainsi que de l'impact de la dépréciation de la monnaie. Quant à celle de l'administration centrale, elle s'est établie à 67,5 % du PIB à fin 2022.

L'Etat réitère son engagement à mener une politique budgétaire performante en vue de préserver la viabilité de la dette, tout en permettant la disponibilité de ressources pour parachever la mise en œuvre du PAP2-A en 2023, afin de consolider la relance de l'économie entamée depuis 2021 et le renforcement de l'exécution des programmes de politiques sociales.

Cet engagement coïncide avec le démarrage de l'exploitation des ressources pétrolières et gazières qui devrait renforcer le cadre macroéconomique sur la base des options stratégiques pour une croissance économique forte, durable et inclusive, conformément aux objectifs d'émergence, avec une priorité accordée aux secteurs sociaux prioritaires, aux investissements dans le domaine des infrastructures et à la lutte contre les inégalités et précarités.

Dans cette perspective, l'Etat du Sénégal visera les objectifs stratégiques suivants : (i) renforcer la stabilité macroéconomique, par des politiques budgétaires placées sous le signe de la prudence et des dépenses plus efficaces avec pour finalité, la lutte contre la pauvreté ; (ii) poursuivre l'amélioration du climat des affaires dans le pays, au moyen de réformes structurelles ; (iii) accroître les capacités internes de prise en charge des dépenses prioritaires, notamment celles dites sociales ainsi que celles concourant à l'atteinte de la souveraineté alimentaire et pharmaceutique, à la valorisation des ressources et productions locales, à l'industrialisation et au développement de l'économie numérique, mais également le financement des infrastructures ; (iv) améliorer la mobilisation des recettes avec la poursuite de la mise en œuvre de la Stratégie de Recettes à Moyen Terme (SRMT) afin de renforcer les synergies des administrations intervenant dans la collecte des ressources de l'Etat ; (v) parachever la mise en place d'un cadre transparent et efficace pour le secteur des hydrocarbures, notamment en ce qui concerne la gestion des recettes tirées de l'exploitation du pétrole et du gaz.

Enfin, sur le plan social, la problématique de la cherté de la vie est au centre des préoccupations. Compte tenu de la persistance des chocs exogènes qui affectent le pouvoir d'achat des ménages, le Gouvernement fait de la lutte contre la cherté de la vie une priorité absolue. A cette fin, des concertations sur la vie chère ont été lancées le lundi 26 septembre 2022 avec les principaux acteurs, à savoir les organisations de producteurs, de commerçants, de consommateurs, et d'industriels. A l'issue de cette rencontre de haut niveau, 11 mesures



prioritaires et 4 mesures structurelles ont été prises. Ces 15 mesures phares concernent notamment le paiement des compensations sur le blé, la suspension de taxes, le renforcement du contrôle, la décongestion du port de Dakar et d'autres mesures visant à contenir la hausse des prix. Toutefois, pour l'atteinte des objectifs d'autosuffisance et de promotion d'une économie d'offre, un accent particulier devra être mis sur la valorisation et la promotion des chaînes de valeur dans les secteurs stratégiques.

L'Etat a investi près de 192 366 188 700 FCFA entre 2013 et 2021 pour soutenir, sous forme de transfert monétaire, 315 626 ménages en situation de pauvreté (y compris les personnes handicapées et les enfants dans la rue). A côté des bourses de sécurité familiale de 25 000 francs CFA par trimestre et par ménage, il existe un dispositif d'accompagnement pour le changement de comportement et pour l'autonomisation. Le changement de comportement qui se fait à travers les séances de sensibilisation, comporte un volet éducation (inscription et maintien des enfants à l'école), un volet santé (bonne tenue du carnet de vaccination) et un volet état civil (enregistrement des enfants à l'état civil). L'autonomisation est favorisée par la pratique d'activités génératrices de revenu financées par une injection de cash octroyée dans le cadre du projet Yokk Kom Kom soutenu par un financement de la Banque mondiale.

B. Réformes multisectorielles pour soutenir la croissance et la stabilité du cadre macroéconomique

Energie. L'Etat réaffirme son engagement à mettre en place un cadre de gouvernance transparent, efficace et incitatif pour le secteur privé dans le secteur de l'énergie. A cet effet, les réformes relatives à la gouvernance, à l'organisation et à l'équilibre financier continuent d'être mises en œuvre.

Le nouveau cadre juridique est propice à l'amélioration de la viabilité financière et à la bonne gouvernance avec l'adoption du Code de l'électricité et de la loi sur la régulation du secteur de l'énergie en juillet 2021. Ce cadre apporte les innovations suivantes :

- l'amélioration du processus de planification du secteur de l'électricité à travers la mise en place d'un Plan intégré à moindre coût du secteur approuvé par décret après avis du Régulateur pour améliorer la méthodologie de planification du secteur. Ce plan sert de base à la préparation des plans de production, transport et distribution et d'électrification rurale et à la régulation tarifaire ;
- une plus grande participation du secteur privé adossé au renforcement du contrôle sur le respect de leurs engagements en termes de normes et de performances ;
- l'encadrement des procédures dérogatoires à l'appel d'offres ouvert, qui ne pourra être engagées qu'après avis conforme du Régulateur dont les attributions sont renforcées, et qui s'assure du respect des objectifs et principes posés par le Plan intégré à moindre coût ;
- la libéralisation à terme du secteur avec la fin du monopole exclusif de Senelec pour l'achat en gros d'électricité et l'accès des tiers aux réseaux de transport.

Ce cadre législatif dont l'objectif est de fournir une énergie abordable en quantité et en qualité afin d'atteindre l'accès universel à l'horizon 2025 sera complété par les textes d'application (décrets et arrêtés). Cet objectif de production d'électricité à moindre coût est soutenu par un engagement fort de transparence dans les procédures d'octroi des conventions



et licences de production, de transport et de distribution d'électricité, de célérité et d'efficacité dans la mise en œuvre. Conformément à sa tradition, l'Etat du Sénégal poursuivra toutes réformes ayant pour finalité de renforcer la compétitivité du secteur de l'énergie.

C'est pourquoi la loi n° 2021-31 du 09 juillet portant Code de l'électricité a unifié les procédures de passation des conventions et licences des activités réglementées de production, de transport, de distribution et d'électrification rurale qui étaient régies par la loi n° 98-29 du 14 avril 1998 relative au secteur de l'électricité, le décret n°2006-655 du 18 juillet de 2006 relatif aux appels d'offres pour l'attribution des concessions d'électrification rurale et la loi n° 2010-21 du 20 décembre 2010 d'orientation sur les énergies renouvelables. Ces dispositifs faisaient intervenir une pluralité d'acteurs et empêchaient une bonne lisibilité des procédures applicables.

Dans le cadre de la présente opération d'appui budgétaire et en application du nouveau Code de l'électricité, l'Etat a pris un décret pour préciser les procédures de passation des activités réglementées mises en œuvre par voie conventionnelle sous le régime de concession, d'affermage ou par voie de licence associée à un cahier des charges que sont l'appel d'offres et par dérogation l'entente directe et l'offre d'initiative privée. Avec ce nouveau dispositif, le régulateur, en l'occurrence la Commission de régulation du secteur de l'énergie à travers ses différents organes supervise et contrôle toute la procédure de passation des conventions et licences dans le secteur de l'énergie. Le décret apporte les innovations majeures suivantes : (i) le renforcement et l'élargissement des missions de la CRSE dans les procédures d'entente directe et d'offres d'initiative privée ; (ii) l'unification de toutes les règles et procédures de passation des activités réglementées à l'exception de l'électrification rurale décentralisée ; (iii) la nécessité, avant tout appel d'offres, d'un avis conforme de la CRSE qui s'assure au préalable de l'inscription du projet au plan intégré à moindre coût (PIMC) et du respect du dossier d'appel d'offres aux principes et objectifs qui y sont déclinés ; et (iv) la nécessité de respecter les objectifs de réduction du coût du service de l'électricité, notamment pour les projets non prévus par le plan intégré à moindre coût, avant toute entente directe ou acceptation d'une offre d'initiative privée.

Economie numérique. Conformément à sa stratégie de renforcement de la connectivité et de réduction des inégalités territoriales en matière d'accès aux moyens de communication, l'Etat du Sénégal poursuit le processus de mise en exploitation des capacités excédentaires de fibres optiques de l'Etat qui comprend d'une part, le recensement et la valorisation des excédents et d'autre part, la mise en concession. Relativement à la mise en concession de l'exploitation, de la maintenance et de la commercialisation des infrastructures de fibres optiques terrestres, l'Etat a créé la Société nationale dénommée Sénégal Numérique (SENUM SA), en remplacement de l'ADIE, et dont le rôle sera de recruter par appel d'offres international un contractant ayant les capacités requises pour exploiter, entretenir et commercialiser lesdits excédents efficacement. Le recensement du patrimoine de fibre optique est, désormais, directement suivi par le Ministère en charge de la Communication, des Télécommunications et de l'Economie numérique.

Dans la poursuite des réformes engagées depuis 2019 sur la gestion de l'excédent du patrimoine de fibre optique, désormais confiée à la SENUM SA, l'Etat a entamé la procédure de résiliation du contrat d'exploitation précédemment conclu entre l'ADIE et le Groupement ADS-TCTS. La décision de résilier ce contrat a été prise par l'Etat et notifiée à l'ADS-TCTS en décembre 2022. Lors de sa sessions du 14 mars 2023 le Conseil d'administration de SENUM SA, a approuvé le calendrier suivant pour sa mise en œuvre : (i) achèvement des opérations de résiliation d'ici la fin avril 2023; (ii) lancement d'un appel à préqualification pour la sélection d'un partenaire



pour l'exploitation, l'entretien des équipements et la commercialisation des capacités excédentaires de la fibre optique de l'Etat avant le 24 mars 2023; (iii) finalisation de l'audit du patrimoine de fibre optique avant le 30 août 2023 ; et (iv) lancement de l'appel d'offres international pour recruter un concessionnaire privé pour exploiter efficacement les capacités excédentaires du patrimoine public de fibres optiques dès la finalisation de l'audit du patrimoine et au plus tard le 1^{er} octobre 2023.

Protection sociale

La protection sociale est inscrite dans le deuxième pilier du PSE et réitéré dans le PAP 2A. A travers ce pilier, le Sénégal vise le développement de son capital humain, en investissant sur les secteurs sociaux clés et l'extension du dispositif de protection sociale. Cet objectif passe aussi par la consolidation du système de protection sociale et le renforcement de l'équité territoriale, en élargissant l'accès aux mécanismes de protection sociale pour venir en aide aux populations les plus vulnérables.

A la suite du diagnostic réalisé à l'occasion de la formulation du PSE en 2014, l'Etat avait adopté une stratégie nationale de protection sociale, cadre de référence en matière de politique économique et sociale qui vise, sur un horizon de vingt ans (2015 -2035) la couverture de la population du Sénégal. La SNPS s'appuie sur les déficits de protection sociale identifiés, les choix stratégiques de l'Etat et les leçons tirées de l'expérience internationale. Bâtie autour de l'approche *cycle de vie*, elle vise à rendre l'ensemble du système plus inclusif avec une plus grande proportion de personnes pauvres et vulnérables et un accent particulier mis sur les femmes, les jeunes, les actifs du secteur informel, les exploitations familiales dans le secteur primaire et les Très Petites Entreprises. L'objectif est de construire un dispositif capable de fournir à chacun un revenu minimum, une couverture maladie, mais aussi un filet de sécurité global.

Afin d'apporter plus de cohérence, de lisibilité et d'efficacité dans les interventions de l'Etat du Sénégal en matière de lutte contre la pauvreté, la vulnérabilité et les inégalités sociales et territoriales, un département ministériel chargé du Développement Communautaire, de l'Equité sociale et territoriale a été créé au mois d'avril 2019. Il assure la tutelle de ces structures. Les programmes et projets rattachés à ce département opérationnalisent l'axe 2 du Plan Sénégal Emergent (PSE) intitulé « Capital humain, protection sociale et Développement durable » qui vise le renforcement de l'inclusion socio-économique, à travers une amélioration significative des conditions de vie des populations et l'émergence de territoires viables.

Par ailleurs, le Sénégal a ratifié la Convention de l'Organisation Internationale du Travail sur la Protection Sociale (Convention 102 ; normes minimales de sécurité sociale) et a mis en place une stratégie nationale de protection sociale, cadre de référence en matière de politique économique et sociale qui vise, sur un horizon de vingt ans (2015 -2035), à mettre en place un Système national de Protection sociale inclusif. L'objectif est de construire un dispositif capable de fournir à chacun un revenu minimum, une couverture maladie, mais aussi un filet de sécurité global.

Pour la mise en œuvre de ce dernier volet, l'Etat s'appuie sur les structures suivantes qui sont toutes rattachées au Ministère du Développement Communautaire, de la Solidarité Nationale et de l'Equité Sociale et Territoriale : (i) la Délégation générale à la Protection sociale et à la Solidarité nationale (DGPSN) qui assure le pilotage opérationnel des programmes de filets sociaux de lutte contre la pauvreté chronique et la vulnérabilité et dont l'action phare est le



Programme national des Bourses de Sécurité familiale (PNBSF) ; (ii) l'Agence Nationale de la Couverture Maladie Universelle (ANACMU), chargée de la mise en œuvre de la stratégie nationale de développement de la Couverture Maladie Universelle (CMU) et ; (iii) le Commissariat à la Sécurité alimentaire (CSA) et le Fonds de Solidarité nationale (FSN) qui mettent en œuvre la politique d'assistance alimentaire aux ménages soumis aux aléas des chocs alimentaires ou victimes de sinistres. Avec la crise de la Covid-19 et les autres chocs déclarés ces dernières années tels que l'insécurité alimentaire, les inondations et les incendies, le système est en train d'intégrer un important volet de protection sociale adaptative visant le renforcement de la résilience.

En 2012, seulement 20% de la population (les fonctionnaires et les travailleurs du secteur privé) disposaient d'une couverture du risque maladie. Environ 80 % de la population, constitué du secteur informel et du monde rural, ne disposait d'aucune couverture maladie, ce qui a amené l'Etat à lancé, en septembre 2013, le programme de Couverture Maladie Universelle (CMU), dont l'objectif est de garantir à tous les citoyens sénégalais un accès à un minimum de soins. La CMU offre la possibilité aux populations du secteur informel et celles du monde rural, qui constituent sa cible prioritaire, de bénéficier d'une couverture du risque maladie, avec un accent particulier pour les personnes indigentes et groupes vulnérables. Ainsi, selon le rapport de performance de l'ANACMU en 2021, une couverture de 23% du risque maladie est enregistrée à travers les mutuelles de santé à base communautaire, soit 3 989 524 personnes touchées dont 742 429 bénéficiaires à jour de leurs cotisations.

Par ailleurs, et pour une meilleure mise en cohérence des politiques de protection sociale, les bénéficiaires du Programme de Bourse de Sécurité Familiale (PNBSF), ainsi que les membres de leurs familles sont enrôlés et pris en charge gratuitement dans les mutuelles de santé. Or, avec la mise en place de la CMU, l'Etat avait comme objectif d'accroître le taux de couverture de la population, tous régimes confondus, à 75% en 2017 et 80% à l'horizon 2021. En réalisation, le taux de couverture est passé de 20% en 2012 à 53% en 2020, tous régimes confondus. Globalement, en fin 2021, le taux de couverture du risque maladie (tous régimes confondus) était de 53,6%. Ainsi, 9.232.795 personnes bénéficient d'une couverture du risque maladie par, au moins, un des systèmes existants (mutuelles de santé, gratuité des soins des enfants de moins de cinq ans et des personnes âgées de 60 ans et plus, imputation budgétaire, IPM (Institutions de prévoyance maladie), IPRES (Institution de prévoyance retraite du Sénégal) et assurances privées commerciales). Afin d'augmenter ce taux de couverture, à travers la présente opération, l'Etat a mis en place un nouveau cadre réglementaire (décret) pour une meilleure intégration des bénéficiaires des BSF dans la CMU.

Afin d'accroître la capacité du système de protection sociale à identifier et sélectionner les ménages ayant besoin d'assistance, en particulier en cas de choc covariant, l'Etat a entamé en 2015 la construction d'un important outil (le Registre national unique ou RNU) permettant de rationaliser la mise en œuvre des programmes sociaux. Le Registre national unique est une base de données dynamique, proportionnelle au nombre de pauvres de chaque commune du pays et obtenue suivant un processus d'identification et de sélection des ménages pauvres et/ou vulnérables pour leur permettre d'accéder de façon équitable et transparente à des programmes sociaux. Le RNU a montré toute sa pertinence pendant la période de la pandémie de Covid-19 en permettant au gouvernement de déployer rapidement des programmes d'assistance aux ménages impactés. Fort de ce succès, l'Etat a décidé d'étendre le RNU à un million de ménages afin de couvrir les ménages vulnérables aux chocs en plus des ménages pauvres. L'extension du RNU à un million de ménages se base sur le taux de vulnérabilité de chaque commune calculée par l'ANSD. Elle permettra au gouvernement de disposer d'une large base de sélection pour les programmes sociaux, comprenant l'ensemble des ménages pauvres du pays mais

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également des ménages non pauvres mais qui pourraient le devenir en cas de choc. Cette extension est couplée avec la mise à jour du registre pour s'inscrire dans une amélioration permanente des données.

Institutionnalisé par le Décret n° 2021-1052 du 02 août 2021 pris dans le cadre de la première série de réformes multisectorielles soutenues par la Banque mondiale, le RNU dispose désormais du cadre réglementaire l'instituant comme la base de sélection unique des programmes sociaux afin de mutualiser, d'harmoniser et d'imprimer une célérité dans l'exécution des projets et programmes.

Deux décrets ont été signés dans le cadre de la présente série de réformes multisectorielles soutenues par la Banque mondiale. Le premier est le décret de création de la DGPSN qui participe à la clarification du cadre institutionnel du secteur de la protection sociale en mettant à jour l'ancrage institutionnel de la DGPSN, en clarifiant son mandat et en reflétant la suppression du rattachement institutionnel du Fonds de Solidarité nationale et du Commissariat à la Sécurité alimentaire à la Délégation.

Le second est le décret de création du PNBSF qui permet d'institutionnaliser le principal programme de protection sociale du pays qui constitue, avec le RNU, le socle du système de protection sociale au Sénégal. En plus de favoriser la pérennité du programme, le décret de création du PNBSF est de nature à accroître la confiance des citoyens dans leur système de protection sociale à travers la clarification des principaux paramètres du programme comme la durée et les conditions d'éligibilité. Comme inscrit dans le décret, un plan de transition des bénéficiaires actuels du PNBSF sera préparé par la DGPSN dans les six mois qui suivent la publication du décret afin de mettre le programme en conformité avec les paramètres d'éligibilité et de durée. Ainsi, les ménages ne répondant plus aux critères de pauvreté ou de vulnérabilité après la période de cinq ans sortiront du programme afin de permettre à de nouveaux ménages pauvres d'en bénéficier. La mise en conformité du programme avec les dispositions du décret passe aussi par la nécessité de régulariser le paiement des bourses qui est une des conditions de son efficacité. Ainsi, les retards de paiements des bourses doivent être régularisés et le calendrier des paiements trimestriels doit être respecté pour maximiser l'impact du programme sur la réduction de l'extrême pauvreté.

Les autorités procéderont à la confirmation ou la nomination des responsables des différents services instaurés dans ce nouveau cadre institutionnel. Ces dispositions permettront de rendre opérationnel ce nouveau cadre réglementaire du système de protection sociale.

Développement de l'investissement privé

L'Etat considère les partenariats public-privé (PPP) comme un facteur important de croissance et de création d'emplois, en particulier dans le contexte du PSE. En plus de faciliter la réalisation de grands projets d'infrastructures, les PPP devraient encourager la production sénégalaise, en particulier dans le secteur agricole, stimuler les PME locales et développer le secteur privé. Le Sénégal a adopté pour la première fois en 2004 une loi BOT qui a permis le développement des grands projets d'infrastructures tels que l'Aéroport International Blaise Diagne ou l'autoroute à péage Dakar-Diamniadio. Afin de capitaliser davantage sur le fort potentiel du pays pour attirer des investisseurs privés et pour réaliser de tels partenariats, le Sénégal a adopté en février 2014 une nouvelle loi sur les PPP pour fournir un nouveau cadre, plus souple, en vue de favoriser le financement d'investissements structurants et d'étendre l'utilisation des PPP en dehors du secteur des infrastructures comme les secteurs de la santé ou encore de l'éducation.



Une loi a été adoptée par le Parlement le 22 février 2021, afin de rénover le cadre juridique des PPP. Il est apparu plus approprié de renforcer le cadre de développement des projets avec la mise en place d'un organe expert (Unité nationale d'appui aux PPP), qui accompagne les autorités contractantes sur tout le cycle du projet. Cet organe s'appuiera sur le réseau de points focaux PPP disséminés au sein des différents départements ministériels.

Le nouveau cadre juridique des PPP est marqué par plusieurs innovations majeures. Il s'agit d'établir un cadre juridique unifié pour tous les projets de PPP (délégation de service public et contrats de partenariat), de rationaliser le cadre institutionnel afin de simplifier les procédures et d'éviter les incompatibilités, de généraliser l'évaluation préalable à tous les projets de PPP et de mettre en place un système renforcé de suivi et de contrôle des PPP, entre autres.

Par ailleurs, de nouveaux dispositifs tels que l'accord-programme, le fonds d'appui aux partenariats public-privé, l'offre d'initiative privée, et la dématérialisation des procédures sont prévus pour faciliter un développement substantiel de projets de partenariat public-privé, notamment au niveau des collectivités territoriales. De plus, le projet de loi renforce les dispositions pour une forte participation du secteur privé national et communautaire dans les partenariats public-privé, tout en restant attractif pour le secteur privé international.

Par conséquent, cette réforme permettra la mise en œuvre rapide de projets structurants, respectueux de l'environnement et favorisant la participation du secteur privé national.

Le Plan d'Actions Prioritaires 2019-2023 (PAP 2 2019-2023) comprend 700 projets dont 20 devront être réalisés en partenariat avec des investisseurs privés. La participation du secteur privé au financement du PAP2, y compris à travers les PPP, est attendue à 5 740 Milliards FCFA, représentant 39% de montant total, une contribution deux fois plus importante que celle prévue dans le PAP 2014-2018 (16%). Les PPP sont au cœur des dispositifs innovants du PAP2 pour atteindre cet objectif de mobilisation de financements privés. L'opérationnalisation de ces dispositifs se fera en se focalisant, dans un premier temps, sur les projets du portefeuille PAP2. Ensuite, il a été entrepris une activité de sélection et de priorisation des projets du portefeuille PPP à préparer pour le long terme, en conformité avec les orientations du PSE.

Avec la finalisation du cadre juridique matérialisé par les textes d'application (arrêtés) de la loi relative aux PPP, l'Etat entend poursuivre cette dynamique de renforcement de l'investissement privé lors de la prochaine phase du PSE, sur la période 2024-2028.

Capital humain et éducation des filles

Dans le PSE, le Sénégal s'est fixé comme objectif de promouvoir un modèle social inclusif où règnent l'État de droit, la bonne gouvernance, la démocratie, le respect des libertés et droits humains fondamentaux, la participation citoyenne, la coopération et la solidarité, la justice sociale et le développement axé sur l'humain, l'égalité des genres et l'autonomisation des filles et des femmes, la protection sociale et la santé pour tous, la préservation de l'environnement, l'esprit de tolérance et de paix.

Afin d'atteindre cet objectif, l'Etat a entrepris de nombreuses réformes, particulièrement dans le domaine de l'éducation des filles. Il s'agit notamment de l'intensification des campagnes de sensibilisation et de mobilisation sociale en faveur de l'accès, du maintien et de la réussite des filles à l'école ainsi que la mise en place de mesures incitatives en faveur de l'accès et de la réussite des filles à l'école.



Au Sénégal, les dispositions de la loi d'orientation 91-22 modifiée en 2004 instaure l'obligation scolaire de 6 ans à 16 ans pour tous les enfants des deux sexes. A ce titre, les écoles et établissements sont tenus d'autoriser le retour des jeunes femmes sur présentation d'un document médical certifié attestant du retour de couches de la concernée. Ce cadre juridique a été renforcé dans le cadre des réformes inscrites dans la présente opération de financement avec un dispositif (arrêté) encadrant le maintien à l'école des filles en état de grossesse.

Au-delà du secteur de l'éducation en renforcement des précédentes réformes pour l'accès des femmes au marché du travail, le nouveau Code des marchés publics octroie plus de possibilités aux entreprises dirigées par des femmes pour être attributaires de la commande publique.

Politique environnementale et co-bénéfice climat

Dans le cadre des réformes multisectorielles de la présente opération d'appui budgétaire, le Sénégal a également entrepris une importante réforme pour une exploitation responsable de ses ressources en hydrocarbures (pétrole et gaz). Cette réforme vise à concrétiser l'engagement de l'Etat du Sénégal à contribuer à la réduction des émissions de gaz à effet de serre issues du torchage et d'évacuation (CO2 et méthane) de routine survenant dans le processus de production du pétrole et du gaz.

Le Sénégal apporte ainsi une contribution aux objectifs de la communauté internationale en matière de protection de l'environnement et de la lutte contre le réchauffement climatique dont les conséquences sont subies par de nombreux pays fragiles, notamment avec des fréquences plus élevées d'inondations et de sécheresses. Il propose des dispositions spécifiant l'interdiction du torchage ou de l'éventage des hydrocarbures.

Un régime spécifique de sanctions administratives et pénales à fixer par décret.

FONGIP

Les études sur l'accès au crédit au Sénégal montrent un large déficit de financement pour les PME au Sénégal (environ 0,9 milliard de dollars), soit plus du double de l'encours de crédit actuellement consenti par le secteur bancaire. Les primo accédants, les TPE et les PME ne remplissent pas souvent les conditions minimales exigées par les établissements de crédit.

C'est pourquoi en 2013, l'Etat a mis en place un dispositif de soutien financier à travers le Fonds Souverain d'Investissements Stratégiques (FONSIS), la Banque Nationale de Développement Economique (BNDE), et le Fonds National de Garantie et d'Investissements Prioritaires (FONGIP).

Les missions du FONGIP consistent, entre autres, à faciliter l'accès au crédit pour les PME et les primo accédants. A travers le Programme Emploi, Transformation économique et Relance (ETER) financé par la Banque mondiale à hauteur de 125 millions de dollars, l'Etat du Sénégal s'est fixé comme objectif d'intensifier le soutien que le FONGIP et le FONSIS apportent respectivement aux PME et aux start-ups.

Pour renforcer l'impact de ce programme, l'Etat a déjà amélioré la gouvernance du FONGIP à travers la création d'un comité des risques et la création d'un comité d'audit. Ces deux comités sont présidés par des administrateurs indépendants. Par ailleurs, le FONGIP a renforcé son organigramme avec le recrutement d'un responsable en contrôle de gestion, d'un responsable des questions sociales et environnementales ainsi qu'un responsable du suivi & évaluation.

Afin de continuer à soutenir efficacement le programme ETER, le Gouvernement s'engage à instituer un guichet spécifique dédié aux PME au sein du FONGIP.



Gestion des finances publiques

En 2022, la mobilisation des recettes a été marquée par la consolidation de la mise en œuvre de la Stratégie de Recettes à Moyen Terme (SRMT), constituée par des mesures en termes d'organisation, d'administration et de législation visant à améliorer l'efficacité, l'efficience et la transparence du système fiscal sénégalais, grâce notamment à une utilisation accrue des technologies numériques, permettant une meilleure maîtrise de l'assiette.

En 2023, la SRMT sera accélérée pour une mobilisation plus efficiente des ressources publiques afin : (i) d'adapter le système fiscal et douanier aux évolutions du contexte économique, social, environnemental et numérique ; (ii) d'améliorer la productivité des services de recettes et (iii) de réduire les coûts supportés par les contribuables pour se conformer à leurs obligations vis-à-vis des administrations en charge de la mobilisation des recettes.

Les réformes fiscales inscrites dans la matrice de la présente opération d'appui budgétaire s'inscrivent dans la SRMT, notamment les mesures relatives à la rationalisation des dépenses fiscales et à l'amélioration de la qualité des services aux contribuables avec un traitement plus accéléré des procédures de remboursement des crédits de TVA. Dans la loi de finances de l'année 2023, l'exonération de TVA a été supprimée pour les ménages dont la consommation dépasse la tranche sociale ainsi que pour les services non médicaux délivrés dans les établissements privés de santé.

En outre, les orientations seront axées sur la poursuite de la modernisation des administrations fiscales et douanières.

Conformément à ses engagements internationaux, le Gouvernement a publié en août 2022, le rapport de la Cour des Comptes sur la gestion du Fonds FORCE COVID-19. A la suite de cet exercice de transparence, le Gouvernement s'est engagé à mettre en œuvre les recommandations de la Cour des comptes.

Mamadou Moustapha BA



Republique du Sénégal
Le Ministre
Ministère des Finances et du Budget



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MINISTRY OF FINANCE
AND BUDGET

Program funding in the form of World Bank budget
support

Development Policy Letter

April 2023





This sectoral policy letter includes a review of recent macroeconomic developments in Senegal (A) and the multisectoral reforms of the budget support operation (B).

A. Recent macroeconomic developments

Global economic activity in 2022 has experienced a widespread and sharper than expected slowdown, with inflation reaching levels not seen in decades. The rising cost of living, tighter financial conditions in most regions, the Russian-Ukrainian crisis, and the lingering effects of the COVID-19 pandemic are all weighing heavily on global growth. The International Monetary Fund (IMF) forecasts for January 2023 predict that global economic activity will grow by 3.4 percent this year, compared to 6.2 percent in 2021, a decline of 2.8 percentage points due to the downward revision of economic activity in the United States, China and Europe. In Senegal, economic activity is expected to increase by about 4 percent in 2022, compared with 6.1 percent in 2021. This growth rate is explained by the contraction noted in agricultural exports and the greater than expected decline in industrial production in 2022.

In 2022, the inflation rate was 9.7 percent on average, driven by increase in food prices (+15 percent). Underlying inflation (excluding energy and food) reached 3.5 percent in 2022. Year-on-year inflation peaked at 14.2 percent in November 2022 and has since gradually declined to 9.5 percent in February 2023.

The rise in world food prices and the appreciation of the US dollar impacted the external position in 2022. The current account balance deteriorated to 19.6 percent of GDP in 2022, reflecting a sharp deterioration in the trade balance (-17.9 percent of GDP), which was partially mitigated by a reduction in the services deficit, in line with the decline in imports due to the completion of oil and gas projects.

The money supply grew by 21.6 percent in 2022, driven by a strong increase in domestic credit. The net international investment position fell by 18.3 percent. Credit to the government and the private sector increased by 51 percent and 20 percent respectively. Over the same period, the stock of non-performing loans as a proportion of total loans fell significantly, to 9.5 percent from 11.8 percent in 2021.

Since June 2022, financial conditions in the West African Monetary Union's sub-regional market have tightened. The sharp rise in inflation and the erosion of foreign exchange reserves have led the BCEAO to raise its main policy rates since June 2022 and to reduce banks' demand for refinancing at the minimum interest rate. This has led to a decline in demand for sovereign securities by banks and an increase in their yields.

More generally, over the period 2016-2022, the primary sector accounted for an average of 15.6 percent of GDP. It is essentially dominated by the agricultural sector, which represents 66.2 percent on

average over the period. The share of livestock farming is around 23.5 percent and fishing represents 7.2 percent. Forestry and logging have the lowest contribution, at around 3.0 percent. Growth in the primary sector is estimated at 6.0 percent in 2022 after a contraction to -1 percent in 2021 thanks to a rebound in the agriculture (7.7 percent) and livestock and hunting (3.1 percent) sectors. The GDP growth rate for the primary sector has been estimated at 6.7 percent on average over the period 2016-2022.





The secondary sector contributed to 24.2 percent of the estimated nominal GDP in 2022. Mining and quarrying contributed to 18.6 percent of secondary value added and the contribution of manufacturing is estimated at 61.7 percent. Construction and energy accounted for 11.9 percent and 5.4 percent of the secondary sector, respectively. Real GDP growth in the secondary sector is estimated at 1.1 percent in 2022 after 10.9 percent in 2021, mainly due to the fall in refining and coking activities (-65.3 percent), the manufacture of metallurgical products (-13.4 percent) and the decline in mining and quarrying activities (-3.1 percent). The GDP growth rate of the secondary sector is estimated on average at 5.5 percent over the period 2015-2022.

The services sector, or tertiary sector, is the most important sector in the Senegalese economy, accounting for 49.3 percent of estimated nominal GDP in 2022. Real GDP growth in the tertiary sector is estimated at 6.0 percent in 2022. Growth in the tertiary sector is essentially driven by "collective and personal services", "specialized, scientific and technical services", and "accommodation and food services", with respective growth rates of 27.9 percent, 7.2 percent, and 6.2 percent. The GDP growth rate of the tertiary sector is estimated at 4.7 percent on average over the period 2015-2022.

In the medium term, economic activity is expected to pick up as a result of a combination of several factors, including a satisfactory recovery in secondary and tertiary sector activities supported by the revival of structural investments as part of the continued implementation of the PSE projects and programs included in the Adjusted and Accelerated Priority Action Plan (PAP2A). In 2023, the growth rate is projected at 8.8 percent. Senegal's real GDP is expected to experience solid growth over the next few years, supported by the country's initial hydrocarbon production and stabilized non-hydrocarbon growth at a high level (close to 6.0 percent as of 2023).

Budget execution in 2022 was completed satisfactorily and in line with the commitments made under the economic and financial program with the IMF. Tax revenues (excluding grants, funds and exceptional revenues) are expected to reach 18.1 percent of GDP in 2022. With the implementation of the reforms and activities planned under the Medium-Term Revenue Strategy (MTRS), the government is maintaining its objective of achieving 20 percent of GDP of tax revenue of by 2024.

Since 2011, the government has been pursuing a fiscal policy based on reducing the budget deficit by broadening the tax base, improving the efficiency of tax collection and rationalizing expenditures. The Medium Term Revenue Strategy (MTRS) has been implemented since January 2020 and is expected to cover the period 2020-2025. As a result of these efforts, the budget deficit decreased steadily between 2013 and 2018, from 5.5 percent of nominal GDP to 3.5 percent. Then it widened to 3.7 percent in 2019. In 2020, the deficit increased to 6.4 percent of nominal GDP, due to measures taken by the state to deal with the effects of the Covid-19 pandemic. For 2021, the budget deficit was at 6.3 percent of GDP, as projected in the second Revised Finance Law (LFR2).

In 2022, budget execution was in line with objectives, with an overall budget deficit of 6.3 percent of GDP, in a context of increased support for household purchasing power with the suspension of taxes on basic food (rice, wheat flour, etc.) and a substantial increase in subsidies, particularly energy subsidies following the high level of oil prices accentuated by the war in Ukraine. The budget deficit, initially planned at 5.4 percent of GDP in the first Revised Finance Law (LFR1) to support household purchasing power was increased to 6.3 percent in the second Revised Finance law of the year. The 0.9 percent difference was financed by CFAF 196.2 billion from the CFAF 246.2 billion in IMF Special Drawing Rights (SDR).



In 2023, the budget deficit is projected at 5.5 percent in the initial budget law. To achieve this deficit, the authorities have taken steps to reduce energy subsidies by increasing electricity and fuel prices, while mitigating the impact on vulnerable households through targeted social measures. The government has published a roadmap to eliminate energy subsidies by 2025.

These efforts, combined with improved revenue mobilization, will help rebuild budgetary space and put public debt on a clear downward path in the medium term.

Overall public debt, including parastatal entities (SOEs), amounted to CFAF 12,956 billion (75.0 percent of GDP) at the end of 2022. It increased by CFAF 1,355 billion, due to the budget deficit, loans to public enterprises and the impact of currency depreciation. The central government's debt stood at 67.5 percent of GDP at the end of 2022.

The State reiterates its commitment to an efficient fiscal policy to preserve debt sustainability, while allowing the availability of resources to complete the implementation of PAP2-A in 2023, in order to consolidate the economic recovery that begun since 2021 and to strengthen the implementation of social policy programs.

This commitment coincides with the start of the exploitation of oil and gas resources, which should strengthen the macroeconomic framework on the basis of strategic options for strong, sustainable and inclusive economic growth, in line with the objectives of emergence, with priority given to priority social sectors, investment in infrastructure and the fight against inequality and insecurity.

With this in mind, the State of Senegal will pursue the following strategic objectives: (i) strengthening macroeconomic stability through prudent budgetary policies and more efficient spending, with the aim of reducing poverty; (ii) continuing to improve the country's business climate through structural reforms; (iii) increase internal financial capacity to cover priority expenditures, particularly those of a social nature, as well as those contributing to the achievement of food and pharmaceutical sovereignty, the development of local resources and production, industrialization and the development of the digital economy, as well as the financing of infrastructure; (iv) improve revenue mobilization by continuing to implementation of the Medium-Term Revenue Strategy (MTRS) in order to strengthen the synergies between the administrations involved in the collection of state resources; (v) complete the establishment of a transparent and efficient framework for the hydrocarbon sector, particularly with regard to the management of oil and gas revenues.

Finally, on the social level, the problem of the high cost of living is a central concern. Given the persistence of exogenous shocks that affect household purchasing power, the government has made the fight against the high cost of living an absolute priority. To this end, consultations on the high cost of living were launched on Monday 26 September 2022 with the main actors, namely the organizations of producers, traders, consumers, and manufacturers. At the end of this high-level meeting, 11 measures



and 4 structural measures have been taken. These 15 key measures include the payment of compensation for wheat, the suspension of taxes, the strengthening of controls, the decongestion of the port of Dakar and other measures to contain price increases. However, to achieve the objectives of self-sufficiency and the promotion of a supply-side economy, particular emphasis should be placed on the development and promotion of value chains in strategic sectors.

The government has invested nearly 192,366,188,700 CFA francs between 2013 and 2021 to support, in the form of cash transfers, 315,626 households living in poverty (including people with disabilities and children living in the street). In addition to the family security grants of 25,000 CFA francs per quarter per household, there is a support system for behavior change and empowerment. Behavioral change, which is achieved through awareness-raising sessions, includes an education component (enrolling and keeping children in school), a health component (keeping vaccination records) and a civil status component (registering children with the civil registry). Empowerment is promoted through the practice of income-generating activities financed by an injection of cash granted within the framework of the Yokk Kom Kom project supported by World Bank funding.

B. Multi-sectoral reforms to support growth and stability of the framework macroeconomic

Energy. The State reaffirms its commitment to establishing a transparent, efficient and incentive-based governance framework for the private sector in the energy sector. To this end, reforms relating to governance, organization and financial balance continue to be implemented. The new legal framework is conducive to improving financial viability and good governance with the adoption of the Electricity Code and the Energy Sector Regulation Act in July 2021. This framework brings the following innovations:

- Improving the planning process for the electricity sector through the establishment of an integrated low-cost plan for the sector, approved by decree after consultation with the regulator, to improve the sector's planning methodology. This plan serves as a basis for the preparation of generation, transmission and distribution and rural electrification plans and for tariff regulation;
- greater participation of the private sector backed by increased control over the respect of their commitments in terms of standards and performance;
- a framework for procedures that derogate from open tendering, which can only be initiated after the approval of the Regulator, whose powers have been strengthened and who will ensure compliance with the objectives and principles set out in the Integrated Plan at lower cost; and
- the eventual liberalization of the sector with the end of Senelec's exclusive monopoly for the purchase of electricity and third-party access to transmission systems. ✕

This legislative framework, whose objective is to provide affordable energy in quantity and quality to achieve universal access by 2025, will be supplemented by implementing regulations (decrees and orders). This objective of producing electricity at lower cost is supported by a strong commitment to transparency in the procedures for granting agreements



and licenses for the production, transmission and distribution of electricity, as well as speed and efficiency in their implementation. In accordance with its tradition, the State of Senegal will pursue all reforms aimed at strengthening the competitiveness of the energy sector.

This is why Act 2021-31 of July 9, 2006 on the Electricity Code unified the procedures for awarding agreements and licenses for regulated generation, transmission, distribution and rural electrification activities, which were governed by Act 98-29 of April 14, 1998 on the electricity sector, Decree 2006-655 of July 18, 2006 on calls for tenders for the award of rural electrification concessions, and Act 2010-21 of December 20, 2010 on renewable energy. These measures involved a number of players and made it difficult to understand the applicable procedures.

As part of this budget support operation and in application of the new Electricity Code, the State has issued a decree specifying the procedures for awarding regulated activities implemented by agreement under the concession, leasing or license system associated with specifications, which are the call for tenders and, by way of derogation, the direct agreement and the private initiative offer. With this new system, the regulator, in this case the Energy Sector Regulation Commission, through its various bodies, supervises and controls the entire procedure for awarding agreements and licenses in the energy sector. The decree includes the following major innovations: (i) the strengthening and broadening of the CRSE's missions in direct agreement and private initiative bidding procedures; (ii) the unification of all the rules and procedures for the award of regulated activities except for decentralized rural electrification; (iii) the need, prior to any call for tenders, for the CRSE to give its assent, which will ensure that the project is included in the integrated least-cost plan (PIMC) and that the tender documents comply with the principles and objectives set out in the plan; and (iv) the need to comply with the objectives of reducing the cost of electricity service, particularly for projects not provided for in the integrated least-cost plan, prior to any direct agreement or acceptance of a private-sector tender.

Digital economy. In accordance with its strategy of strengthening connectivity and reducing territorial inequalities in terms of access to means of communication, the State of Senegal is pursuing the process of putting into operation the State's surplus fiber optic capacities, which includes, on the one hand, the identification and development of surpluses and, on the other hand, the concessioning. Regarding the concession of the exploitation, maintenance and marketing of the terrestrial optical fiber infrastructures, the State has created the national company called Sénégal Numérique (SENUM SA), in replacement of ADIE, and whose role will be to recruit by international invitation to tender a contractor having the required capacities to exploit, maintain and market the said surpluses efficiently. The census of the optical fiber heritage is now directly monitored by the Ministry in charge of Communication, Telecommunications and Digital Economy.

In pursuit of the reforms initiated since 2019 on the management of the surplus fiber optic assets, now entrusted to SENUM SA, the State has initiated the procedure to terminate the operating contract previously concluded between ADIE and the ADS-TCTS Group. The decision to terminate this contract was taken by the State and notified to ADS-TCTS in December 2022. At its March 14, 2023 meeting, the Board of Directors of SENUM SA approved the following timetable for its implementation: (i) completion of the termination operations by the end of April 2023; (ii) launch of a call for pre-qualification for the selection of a partner





for the operation, maintenance of equipment and marketing of excess state fiber optic capacity by March 24, 2023; (iii) finalizing the audit of the fiber optic assets by August 30, 2023; and (iv) launching the international tender to recruit a private concessionaire to effectively operate the fiber optic capacity of the public fiber optic assets upon completion of the asset audit and no later than October 2023.

Social protection

Social protection is included in the second pillar of the PSE and reiterated in PAP 2A. Through this pillar, Senegal aims to develop its human capital by investing in key social sectors and extending the social protection system. This objective also involves consolidating the social protection system and strengthening territorial equity by expanding access to social protection mechanisms to help the most vulnerable populations.

Following the diagnosis carried out during the formulation of the PSE in 2014, the State adopted a national social protection strategy, a reference framework for economic and social policy that aims, over a twenty-year period (2015-2035), to cover the population of Senegal. The SNPS is based on identified social protection deficits, the State's strategic choices and lessons learned from international experience. Built around the *life cycle* approach, it aims to make the entire system more inclusive with a greater proportion of poor and vulnerable people and a particular focus on women, youth, informal sector workers, family farms in the primary sector and very small enterprises. The goal is to build a system that provides everyone with a minimum income, health coverage, and a comprehensive safety net.

To bring more coherence, legibility and efficiency in the interventions of the State of Senegal in the fight against poverty, vulnerability and social and territorial inequalities, a ministerial department in charge of Community Development, Social and Territorial Equity was created in April 2019. It ensures the supervision of these structures. The programs and projects attached to this department operationalize axis 2 of the Emerging Senegalese Plan (PSE) entitled "Human capital, social protection and sustainable development" which aims to strengthen socio-economic inclusion, through a significant improvement in the living conditions of the population and the emergence of viable territories.

In addition, Senegal has ratified the International Labour Organization's Convention on Social Protection (Convention 102; minimum social security standards) and has put in place a national social protection strategy, a reference framework for economic and social policy which aims, over a twenty-year period (2015-2035), to put in place an inclusive National Social Protection System. The objective is to build a system capable of providing everyone with a minimum income, health coverage and a comprehensive safety net.

For the implementation of this last component, the State relies on the following structures, all of which are attached to the Ministry of Community Development, National Solidarity and Social and Territorial Equity: (i) the General Delegation for Social Protection and National Solidarity (DGPSN), which is responsible for the operational management of social safety net programs to combat chronic poverty and vulnerability and whose flagship action is the cash transfer program (PNBSF);



(ii) the National Agency for Universal Health Coverage (ANACMU), which is responsible for implementing the national strategy for the development of universal health coverage (CMU), and (iii) the Food Security Commission (CSA) and the National Solidarity Fund (FSN), which implement the policy of food assistance to households that are subject to the vagaries of food shocks or victims of disasters. With the Covid-19 crisis and the other shocks declared in recent years, such as food insecurity, floods and fires, the system is integrating an important adaptive social protection component aimed at strengthening resilience.

In 2012, only 20 percent of the population (civil servants and private sector workers) had health coverage. Approximately 80 percent of the population, consisting of the informal sector and the rural world, had no health coverage, which led the state to launch, in September 2013, the Universal Health Coverage (CMU) program, whose objective is to guarantee all Senegalese citizens access to a minimum of care. The CMU offers the opportunity to the populations of the informal sector and the rural world, which are its priority target, to benefit from health risk coverage, with a particular emphasis on indigent people and vulnerable groups. Thus, according to the ANACMU performance report for 2021, 23 percent of the health risk is covered through community-based mutual health insurance, i.e., 3,989,524 people, of whom 742,429 are up to date with their contributions.

In addition, and to improve the coherence of social protection policies, the beneficiaries of the Family Security Grant Program (PNBSF), as well as the members of their families, are enrolled and covered free of charge by the mutual health insurance companies. However, with the implementation of the CMU, the State's objective was to increase the coverage rate of the population, all schemes combined, to 75 percent in 2017 and 80 percent by 2021. In reality, the coverage rate has risen from 20 percent in 2012 to 53 percent in 2020, all schemes combined. Overall, by the end of 2021, the rate of coverage of the health risk (all schemes combined) was 53.6 percent. Thus, 9,232,795 people are covered by at least one of the existing systems (mutual health insurance, free health care for children under five and people aged 60 and over, budgetary allocation, IPM (health insurance institutions), IPRES (Senegalese pension insurance institution) and private commercial insurance). In order to increase this coverage rate, through the present operation, the State has put in place a new regulatory framework (decree) for a better integration of BSF beneficiaries in the CMU.

To increase the capacity of the social protection system to identify and select households in need of assistance, particularly in the event of a covariant shock, the government began in 2015 to build an important tool (the Single National Register or SNR) to streamline the implementation of social programs. The Single National Register is a dynamic database, proportional to the number of poor people in each commune of the country and obtained following a process of identification and selection of poor and/or vulnerable households to enable them to access social programs in an equitable and transparent manner. The UNR has shown its relevance during the Covid-19 pandemic by allowing the government to rapidly deploy assistance programs to impacted households. Based on this success, the government decided to extend RNU to one million households to cover shock vulnerable households in addition to poor households. The extension of the RNU to one million households is based on the vulnerability rate of each commune calculated by the ANSD. It will provide the government with a broad selection base for social programs, including all poor households in the country but



This extension is coupled with the updating of the registry to ensure continuous improvement of the data. This extension is coupled with the updating of the registry to be part of a permanent improvement of the data.

Institutionalized by Decree No. 2021-1052 of August 2, 2021, as part of the first series of multisectoral reforms supported by the World Bank, the RNU now has a regulatory framework that establishes it as the sole basis for selecting social programs in order to pool, harmonize and expedite the execution of projects and programs.

Two decrees have been signed as part of this series of multisectoral reforms supported by the World Bank. The first is the decree creating the DGPSN, which contributes to the clarification of the institutional framework of the social protection sector by updating the institutional anchorage of the DGPSN, clarifying its mandate and reflecting the removal of the institutional attachment of the National Solidarity Fund and the Food Security Commission to the Delegation.

The second is the decree creating the PNBSF, which institutionalizes the country's main social protection program, which, along with the RNU, is the foundation of the social protection system in Senegal. In addition to promoting the sustainability of the program, the decree creating the PNBSF is likely to increase the confidence of citizens in their social protection system through the clarification of the main parameters of the program such as the duration and conditions of eligibility. As stated in the decree, a transition plan for current PNBSF beneficiaries will be prepared by the DGPSN within six months of the decree's publication to bring the program into compliance with the eligibility and duration parameters. Thus, households that no longer meet the poverty or vulnerability criteria after the five-year period will be removed from the program to allow new poor households to benefit. Bringing the program into compliance with the provisions of the decree also involves the need to regularize the payment of scholarships, which is one of the conditions for its effectiveness. Thus, delays in scholarship payments must be regularized and the quarterly payment schedule must be respected to maximize the program's impact on reducing extreme poverty.

The authorities will proceed with the confirmation or appointment of the heads of the various services established in this new institutional framework. These measures will make the new regulatory framework of the social protection system operational.

Development of private investment

The government considers public-private partnerships (PPPs) to be an important factor for growth and job creation, particularly in the context of the PES. In addition to facilitating the realization of major infrastructure projects, PPPs should encourage Senegalese production, particularly in the agricultural sector, stimulate local SMEs and develop the private sector. Senegal first adopted a BOT law in 2004, which allowed the development of major infrastructure projects such as the Blaise Diagne International Airport and the Dakar-Diamniadio toll highway. To further capitalize on the country's strong potential to attract private investors and to carry out such partnerships, Senegal adopted a new PPP law in February 2014 to provide a new, more flexible framework to foster the financing of structuring investments and to expand the use of PPPs outside the infrastructure sector such as the health and education sectors.



A law was adopted by Parliament on February 22, 2021, to renovate the legal framework for PPPs. It seemed more appropriate to strengthen the project development framework with the establishment of an expert body (National PPP Support Unit), which will accompany the contracting authorities throughout the project cycle. This body will rely on the network of PPP focal points spread throughout the various ministerial departments.

The new legal framework for PPPs is marked by several major innovations. It involves establishing a unified legal framework for all PPP projects (public service delegation and partnership contracts), streamlining the institutional framework in order to simplify procedures and avoid incompatibilities, generalizing prior evaluation to all PPP projects, and setting up a strengthened PPP monitoring and control system, among others.

In addition, new mechanisms such as the program agreement, the public-private partnership support fund, the private initiative offer, and the dematerialization of procedures are planned to facilitate the substantial development of public-private partnership projects, particularly at the level of local authorities. In addition, the bill reinforces the provisions for a strong participation of the national and community private sector in public-private partnerships, while remaining attractive to the international private sector.

Consequently, this reform will allow the rapid implementation of structuring projects, respectful of the environment and favoring the participation of the national private sector.

The 2019-2023 Priority Action Plan (PAP 2 2019-2023) includes 700 projects, 20 of which are to be implemented in partnership with private investors. Private sector participation in the financing of PAP2, including through PPPs, is expected to reach CFAF 5,740 billion, representing 39 percent of the total amount, a contribution twice as large as that provided for in the 2014-2018 PAP (16 percent). PPPs are at the heart of the PAP2's innovative mechanisms for achieving this objective of mobilizing private financing. The operationalization of these mechanisms will be done by focusing, initially, on projects in the PAP2 portfolio. Then, a selection and prioritization of the PPP portfolio projects to be prepared for the long term, in accordance with the orientations of the PES, has been undertaken.

With the finalization of the legal framework materialized by the application texts (decrees) of the PPP law, the State intends to pursue this dynamic of reinforcement of private investment during the next phase of the PSE, over the period 2024-2028.

Human capital and girls' education

In the PES, Senegal has set itself the objective of promoting an inclusive social model in which the rule of law, good governance, democracy, respect for fundamental human rights and freedoms, citizen participation, cooperation and solidarity, social justice and human-centered development, gender equality and the empowerment of girls and women, social protection and health for all, preservation of the environment, and a spirit of tolerance and peace prevail.

To achieve this objective, the state has undertaken numerous reforms, particularly in the area of girls' education. These include the intensification of awareness campaigns and social mobilization in favor of access, retention and success of girls in school as well as the implementation of incentives for access and success of girls in school.



In Senegal, the provisions of the 91-22 Orientation Law, amended in 2004, establishes compulsory schooling from age 6 to age 16 for all children of both sexes. In this regard, schools and institutions are required to authorize the return of young women upon presentation of a certified medical document attesting to the return of the woman concerned from childbirth. This legal framework has been strengthened in the context of the reforms included in the present financing operation with a measure (decree) governing the retention of pregnant girls in school.

In addition to the education sector, which reinforces previous reforms for women's access to the labor market, the new Public Procurement Code provides more opportunities for women-owned businesses to be awarded public contracts.

Environmental policy and climate co-benefit

As part of the multi-sectoral reforms of this budget support operation, Senegal has also undertaken an important reform for the responsible exploitation of its hydrocarbon resources (oil and gas). This reform aims to concretize the commitment of the State of Senegal to contribute to the reduction of greenhouse gas emissions from flaring and venting (CO₂ and methane) of routine occurring in the oil and gas production process.

Senegal thus contributes to the objectives of the international community in terms of environmental protection and the fight against global warming, the consequences of which are suffered by many fragile countries, particularly with higher frequencies of floods and droughts. It proposes provisions specifying the prohibition of flaring or venting of hydrocarbons.

A specific system of administrative and penal sanctions to be determined by decree.

FONGIP

Studies on access to credit in Senegal show a large financing gap for SMEs in Senegal (about \$0.9 billion), which is more than double the amount of credit currently granted by the banking sector. First-time buyers, VSEs and SMEs often do not meet the minimum conditions required by credit institutions.

That is why in 2013, the State set up a financial support mechanism through the Sovereign Strategic Investment Fund (FONSIS), the National Economic Development Bank (BNDE), and the National Guarantee and Priority Investment Fund (FONGIP).

FONGIP's missions include facilitating access to credit for SMEs and first-time borrowers. Through the Employment, Economic Transformation and Recovery Program (ETER) financed by the World Bank to the tune of 125 million dollars, the State of Senegal has set itself the objective of intensifying the support that FONGIP and FONSIS provide to SMEs and start-ups respectively.

To strengthen the impact of this program, the government has already improved the governance of FONGIP through the creation of a risk committee and an audit committee. These two committees are chaired by independent directors. In addition, FONGIP has strengthened its organizational structure with the recruitment of a management control manager, a manager for social and environmental issues and a monitoring and evaluation manager.

To continue to effectively support the ETER program, the Government is committed to establishing a specific window dedicated to SMEs within the FONGIP.



Public Financial Management

In 2022, revenue mobilization was marked by the consolidation of the implementation of the Medium Term Revenue Strategy (MTRS), consisting of measures in terms of organization, administration and legislation aimed at improving the effectiveness, efficiency and transparency of the Senegalese tax system, thanks in particular to increased use of digital technologies, allowing for better control of the tax base.

In 2023, the SRMT will be accelerated for a more efficient mobilization of public resources in order to: (i) adapt the tax and customs system to the evolving economic, social, environmental and digital context; (ii) improve the productivity of revenue services; and (iii) reduce the costs incurred by taxpayers in complying with their obligations to the administrations in charge of revenue mobilization.

The tax reforms included in the matrix of this budget support operation are in line with the MTS, in particular the measures relating to the rationalization of tax expenditures and the improvement of the quality of services to taxpayers with a more accelerated processing of VAT credit refund procedures. In the 2023 budget law, the VAT exemption has been abolished for households whose consumption exceeds the social bracket and for non-medical services provided in private health institutions.

In addition, the guidelines will focus on the continued modernization of tax and customs administrations.

In accordance with its international commitments, in August 2022 the Government published the report of the Court of Accounts on the management of the FORCE COVID-19 Fund. Following this transparency exercise, the Government has committed to implementing the Court's recommendations.

Mamadou Mpustapha BA

The image shows a handwritten signature in blue ink, which appears to be 'Mamadou Mpustapha BA'. To the right of the signature is a red circular official stamp. The stamp contains the text 'Republique du Sénégal' at the top, 'Le Ministre' in the center, and 'Ministère des Finances et du Budget' at the bottom. There are also some illegible handwritten marks inside the stamp.



ANNEX 4: ENVIRONMENT AND POVERTY/SOCIAL ANALYSIS TABLE

Prior Actions	Significant positive or negative environmental effects	Significant poverty, social or distributional effects positive or negative
Operation Pillar 1: <u>Enable equitable and sustainable growth by : (I) increasing resilience and productivity of households</u>		
<p>Prior Action 1: To improve access to health services for the poorest and strengthen the financial soundness of the UHC program, the Recipient has: (i) issued a decree regulating the support to the beneficiaries of the PNBSF under the UHC program; and (ii) adopted a revised statute for the PNA which facilitates the purchase of drugs on international markets.</p>	Yes, negative	Positive
<p>Prior Action 2: To improve the quality of the social protection system, the Recipient (MDCEST) has: (i) adopted a ministerial order through MDSCNEST establishing and regulating the National Cash Transfer Program (PNBSF) that clarifies eligibility criteria, program duration and exit strategy for beneficiaries who no longer meet the eligibility criteria after the duration of the program; and ii) published a presidential decree establishing the organization and operating rules of the DGPSN)</p>	No	Positive
<p>Prior Action 3: To increase access to economic opportunities for women, the Recipient has revised the Public Procurement Code decree to introduce definitions and measures to facilitate women-led enterprises access to public procurement.</p>	No	Positive
<p>Prior Action 4: To improve girls access to education, the Recipient has adopted a Ministerial Order establishing the right of girls to continuing education while pregnant and reinforcing their rights to be reintegrated into school after pregnancy for those who dropped out.</p>	No	Positive
Operation Pillar 2: Strengthening transparent and sustainable use of productive resources and efficient management of fiscal accounts		
<p>Prior Action 5: To improve the management of budgetary risks, the Minister of Finance has adopted an arrêté defining measures and associated implementation modalities to provision for the fiscal risks quantified in its Fiscal Risks Assessments (FRA)</p>	No	Neutral in the short term, positive in the long term.



Prior Actions	Significant positive or negative environmental effects	Significant poverty, social or distributional effects positive or negative
Prior Action 6: To increase the efficiency of tax expenditures while protecting the poor and vulnerable, the Recipient has removed VAT exemptions on: (i) electricity consumption for households whose consumption exceeds the social tranche, and on (ii) non-medical services delivered in private healthcare institutions.	No	Neutral in the short term, positive in the long term.
Prior Action 7: To further strengthen the use of competition and improve the transparency of decision-making related to public procurement, the President has signed a Decree establishing the procedures for awarding agreements and licenses related to regulated activities associated with the Electricity Code and defining the provisions and procedures for (i) the processing of unsolicited bids, (ii) the processing of direct agreements, and (iii) the awarding of a contract by the contracting authority through a direct agreement procedure in the event of a negative opinion by the regulator.	No	Neutral in the short term, positive in medium term
Prior Action 8: To reduce costs and increase sector sustainability, the Recipient has adopted decrees that implement the Gas Code defining the legal and regulatory framework for investment in the midstream and downstream segments of the gas subsector.	Yes	Neutral in the short term, positive in medium to long term.
Prior Action 9: To reduce routine flaring and venting emissions CO2 and methane occurring in the oil and gas production process, the Recipient has submitted to the National Assembly a supplemental proposal to amend the Environmental Code that specifies provisions to limit routine flaring and venting of natural gas, including the regime specifying exceptions and penalties for non-compliance"	Yes, Positive	Neutral in the short term, positive in medium term
Prior Action 10: To operationalize the PPP legal and institutional framework, the Recipient has issued the ministerial orders regulating the use of transparent and competitive procurement processes for the selection of private partner(s) for PPP contracts in accordance with both the PPP law and the application decree of 2021.	No	Neutral in the short term, positive in medium to long term.

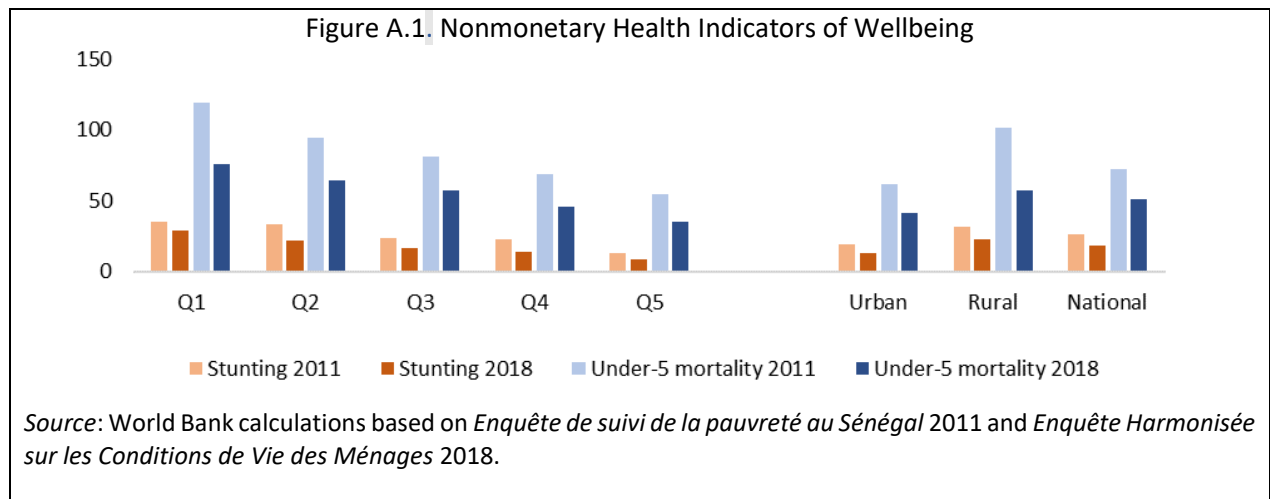


ANNEX 5: DETAILED POVERTY AND SOCIAL IMPACT ANALYSIS

1. This PSIA is developed according to World Bank guidelines and designed to provide an analysis of the potential poverty and social impacts of the policy actions outlined in the Development Policy Loan (DPL). The PSIA outlines the expected impacts from a gender-informed, social, and distributional perspective. The assessment is meant to analyze the policy actions with outcomes in the key objectives of this operation. Pursuant to the World Bank’s policy on Development Policy Finance, this PSIA aims to: (a) identify whether the policies supported by the DPL are likely to have significant poverty and social consequences, especially on poor people and vulnerable groups; (b) analyze relevant analytical knowledge of these effects and of the country’s systems (including legal and institutional framework) for reducing significant adverse effects and enhancing positive effects associated with the policies being supported; and (c) identify the actions that the GoS is undertaking or planning to undertake to address the identified gaps or shortcomings. Preliminary results of the PSIA indicate that this operation is not likely to have significant adverse social effects. A detailed assessment of each action is presented below.

Prior Action 1: To improve access to health services for the poorest and strengthen the financial soundness of the UHC program, the Recipient has: (i) issued a decree regulating the support to the beneficiaries of the PNBSF under the UHC program; and (ii) adopted a revised statute for the PNA which facilitates the purchase of drugs on international markets

2. Despite improvements in health outcomes between 2011 and 2018, significant disparities remain between rural and urban areas and across the income distribution. For instance, in 2018 the under-5 mortality in rural areas was 6 percentage points higher than the national level and 16 percentage points higher than in urban areas and it was twice as high in the first quintile as in the fifth quintile (Figure A.1). Similarly, underweight, wasting, and stunting were higher in rural than urban areas and higher for the poor than the nonpoor (World Bank, 2022). While Senegal ostensibly has a UHC program, it covers less than half of the population. Without health insurance, fewer than 0.8 percent of adults (2018 EHCVM) use preventive health measures such as regular examinations, but when illness occurs, the loss of income can be significant (World Bank, 2022). In fact, in 2011 the primary source of health expenditures in Senegal were out-of-pocket payments, leading to drastic welfare losses in the short term, especially for households in the lowest quintiles of the income distribution (Séne et al., 2015).





3. **Adopting regulations to improve access to health services (PA#1) is expected to enable the expansion of Senegal’s UHC program, thus reducing multidimensional poverty.** The proposed decrees regulating support to the beneficiaries of the *PNBSF* and the new legal status of PNA to reduce stock out of essential medicines and medical supplies supported by this operation will increase the number of poor households covered by health insurance and ensure financial soundness of the system, enabling the expansion of the UHC program. In a context where households have low incomes, irregular cash-flows and imperfect financial instruments, the provision of a reliable UHC program and well stocked national pharmacy are key to reducing said uncertainty (Collins et al. 2009). These regulations are expected to allow for an expansion of the UHC program from 49 to 60 percent, reducing multidimensional poverty and increasing the resilience of households to shocks.

4. **Moreover, by continuing the current targeting of the UHC program, including the PNBSF beneficiaries, the proposed expansion will likely lead to disproportional benefits for the poorest households.** Senegal’s UHC program includes a non-contributory free healthcare scheme for vulnerable groups such as pregnant women, the elderly, and children under the age of five, overseen by the ANACMU. Table A.1 presents the expected effects of increasing coverage of UHC up to increasing national coverage from 49 to 60 percent. This simulation assumes the coverage of all UHC subcomponents increase at the same rate (Sesame, children under 5 years of age, pregnant women), and that the amount benefits and targeting of UHC programs does not change. The results suggest that the expansion of UHC programs will reduce poverty an inequality (Figure A.2). In the case of the UHC insurance, the simulation leads to an increase in the coverage rate in the order of 7 percentage points for the poorest decile and slightly above one percent for the richest decile of the income distribution. While the Plan Sesame subcomponent, targeted to the elderly population, has a similar pro-poor pattern, the subcomponent targeted to all children under 5 years of age shows a more uniform allocation pattern, with similar increases in coverage across the income distribution. The latter finding suggests there is space to improve the allocation of the programs targeted to households with children under 5 years of age.

Table A.1. Parameters of baseline and policy simulated

Program	Cost per beneficiary	Number of beneficiaries	
		Baseline	Proposed Reform
UHC Insurance			
UHC Insurance total coverage	7,000	1,543,507	2,006,559
PNBSF	7,000	1,301,394	1,691,812
CEC beneficiaries	7,000	23,123	30,060
Other poor	7,000	29,648	38,542
Students	7,000	189,342	246,145
UHC Insurance 50%	3,500	936,528	1,217,486
Free healthcare initiatives			
Plan Sésame	29,895	75,693	98,401
Free care for children under 5	460.72	1,870,368	2,431,478
Free caesarean section	79,230	18,360	23,868
Free dialysis	4,432,877	715	930

Source: World Bank parameters collected by Senegal Microsimulation tool calibrated to 2018 administrative data.

5. **To the extent that the expansion of the UHC program will increase noncontributory benefits to vulnerable populations, it is also expected to reduce monetary poverty and inequality.** Figure A.3 shows



the simulated changes in poverty and inequality after the expansion of the coverage of each UHC subcomponent. This exercise assigns the noncontributory health benefits equivalent to the cost per beneficiary of the respective component of the UHC program. As a result of the expansion, the poverty headcount rate is expected to decline by 0.0197 percentage points. Similarly, the poverty gap (poverty gap squared) is expected to decline by 0.013 (0.008) percentage points and inequality is expected to decline.

Figure A.2. UHC expansion across income deciles selected subcomponents

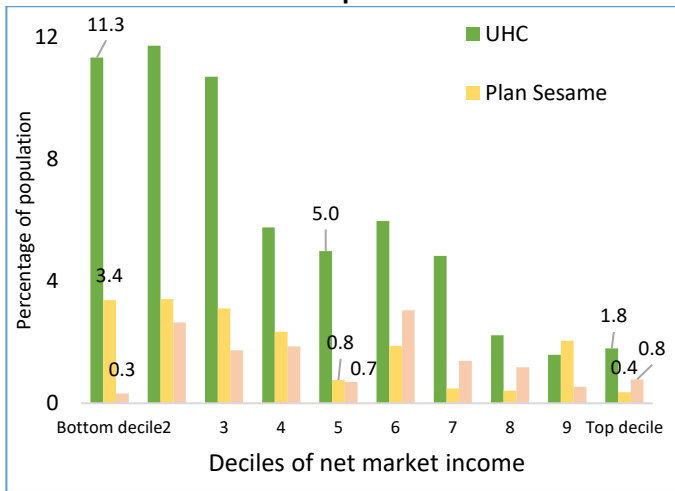
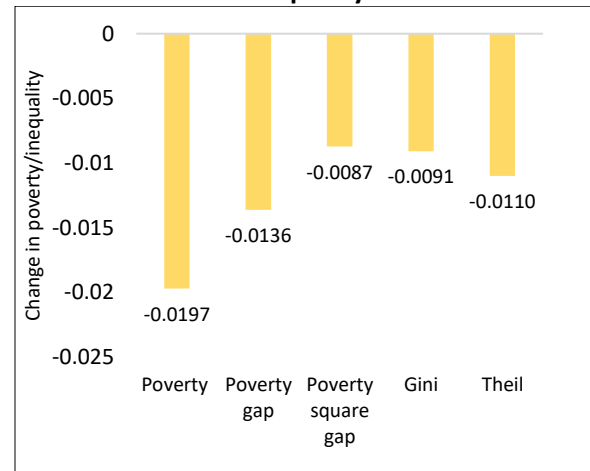


Figure A.3. Effect of UHC expansion on poverty and inequality



Source : World Bank calculations based on *Enquête Harmonisée sur les Conditions de Vie des Ménages 2018*.

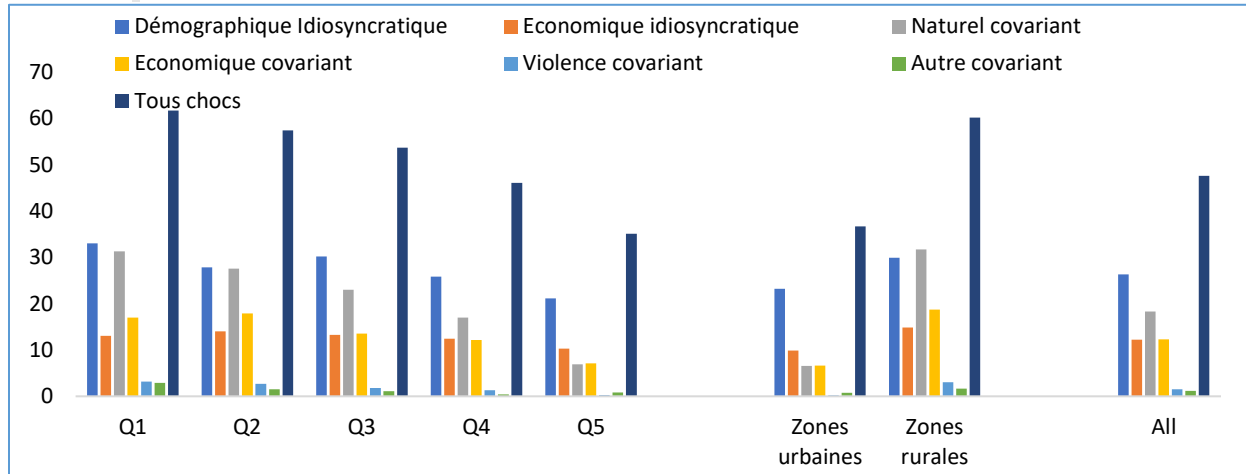
Prior Action 2: To improve the quality of the social protection system, the Recipient (MDCEST) has: (i) adopted a ministerial order through MDSCNEST establishing and regulating the National Cash Transfer Program (PNBSF) that clarifies eligibility criteria, program duration and exit strategy⁸⁰; and (ii) published a presidential decree establishing the organization and operating rules of the DGPSN).

6. **A clearer institutional framework for regular and shock-responsive cash transfer programs is expected to protect households from shocks that disproportionately affect the poor in Senegal.** According to the 2018 household survey, half of the Senegalese households suffered a shock between 2016 and 2018 (World Bank 2022). Those shocks affect primarily poor and rural families. Figure A.4 shows that about 60 percent of households in the bottom quintile of the welfare distribution have been affected by some type of shock, this number is 35 percent for the households in the top quintile of the wellbeing distribution. By allowing the system to respond to shocks in a coordinated, efficient manner rather than on an ad-hoc basis, the new regulations will protect households from shocks, benefiting the poor and vulnerable disproportionately the most.

⁸⁰ The list of beneficiaries who no longer meet the criteria will be compiled at the time of publication of the ministerial order and will exit the program in 2024 when the ministerial order will become effective.



Figure A.4. Percentage of households affected by shock by quintile and place of residence



Source: World Bank (2022) Senegal Poverty Assessment. Note: calculations based on the 2018 Harmonized Survey of Living Conditions of Households.

7. Moreover, adoption of the regulations supported by this prior action is expected to improve the redistributive impact of social programs and lead to a reduction in poverty through improved targeting. By designating the RNU as the primary targeting and coordination instrument across sectors, the prior action is expected to increase the share of benefits targeted to the bottom of the distribution, while the recertification of existing PNBSF beneficiaries is expected to reduce inclusion errors. To quantify the gains of better targeting, we simulate an expansion of 100 thousand PNBSF beneficiaries using two different selection mechanisms.⁸¹ The first one, a geographic mechanism that replicates the current allocation of PNBSF across states; and the second one, a mechanism that combines the geographic allocation and a proxy means test targeting. The first mechanism is being implemented by the Government and does not require the RNU while the second mechanism uses the household characteristics that would be obtained through RNU.⁸²

8. Simulations suggest that an allocation mechanism that uses RNU’s information maximizes the equity gains from an expansion of PNBSF beneficiaries. Figure A.5 shows that an expansion of PNBSF by 100 thousand households reduces poverty by 0.19 percentage points when using RNU information, which is about three quarters more than the reduction obtained when using only spatial targeting (0.11 percentage points). The reduction on inequality is stronger. Inequality is curtailed by 0.01 percentage points if only geographical information is considered, which is only one fifth of the reduction that would be achieved if RNU’s information is used (0.05 Gini points). Similar benefits of the RNU can be observed when using the poverty gap. The figure shows that using RNU to target the new beneficiaries reduces the poverty gap by 0.08 percentage points, more than twice than the reduction that would be achieved using only the spatial targeting. Likewise, the reduction in the squared poverty gap is significantly larger with

⁸¹ The expansion of 100 thousand households is not an explicit target of the Government, but it is a feasible expansion given the fiscal savings that will be obtained in 2023 due to the ongoing subsidy reform.

⁸² RNU’s is used to predict consumption for each household and use it to allocate the expansion of PNBSF to households with lower consumption levels within each state.



RNU targeting. Figure A.6 shows that this reduction in poverty and inequality is because the allocation using RNU is much more pro-poor than the allocation that only relies on geographical targeting. About 11 out of the 100 thousand beneficiaries belong to bottom decile of the population when RNU’s information is used, which is more than three times the beneficiaries that would be reached by spatial targeting alone (3.1 thousand).

Figure A.5. Effects of increasing PNBSF by 100,000 households on poverty and inequality

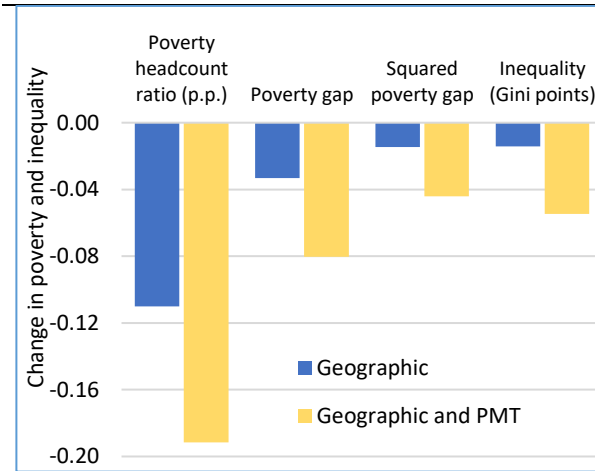
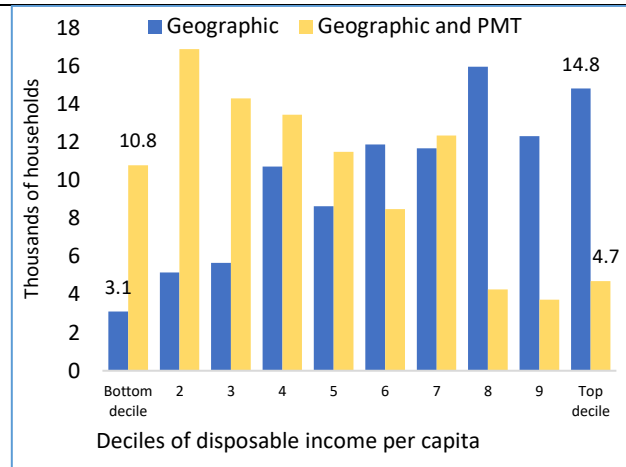


Figure A.6. Distribution of the new PNBSF beneficiaries



Source: World Bank calculations based on Enquête Harmonisée sur les Conditions de Vie des Ménages 2018.

Note: The figures show the effect of increasing PNBSF by 100 thousand families across two different targeting mechanisms. The geographic targeting allocates new beneficiaries across states using current distribution of PNBSF beneficiaries (the selection of households within each state is random). The geographic and Proxy- Means Testing (PMT) targeting also uses the current distribution of PNBSF beneficiaries across states and within each state it assigns PNBSF to the households whose PMT predicts to have lower levels of consumption. PMT is a predicted consumption that is estimated using household characteristics such as number of children and elderly, dwelling structure, and assets. Figure A.6 shows the distribution of beneficiaries before the expansion of PNBSF that is simulated, the sum of the numbers may not add up to 100 thousand because of rounding errors.

Prior Action 3: To increase access to economic opportunities for women, the Recipient has revised the Public Procurement Code decree to introduce definitions and measures to facilitate women-led enterprises access to public procurement.

9. While Senegal has made significant progress in reducing the gender gap across several dimensions during the last decade, it is still comparatively large and impedes poverty and inequality reduction efforts. Closing the gender gap is a key development objective as it is linked with 45 targets and 54 indicators of the Sustainable Development Goals (UNDP and UN Women, 2018). While progress has been made in the last decade in primary education, large gender gaps persist in the secondary and tertiary education sector alongside gaps in the economic and political sectors. These gaps are mainly explained by gender-based differences in access to productive resources in rural contexts, lower participation of women in the labor market and a lack of access to credit and infrastructure for women (Maisonave and Mamboudou, 2020). A recent study estimated the gender wage gap to be about 47 percent, only one third of which is explainable by observable individual endowments such as education (Malta, Martínez, and Tavares, 2019). The remaining two-thirds are likely to be explained by discrimination in the labor market due to the lack of a legal framework against wage and hiring discrimination.



10. **Given the prevalence of the informal sector in the Senegalese labor market, the targeting of female-led enterprises and the provision of TA to female-led firms will be key in reducing the economic gender gap.** In 2018-2019, 87 percent of jobs in urban areas and 96 percent of jobs in rural areas were in the informal sector (World Bank, 2022). In this context, precise targeting of female-led firms will be key to ensuring an effect on welfare and inequality through the reduction of the gender gap. Measures supported by this operation include a 2 percent preference for bidding companies whose shareholders are composed by at least 50 percent of women; set asides for SME employing at least 50 percent of women; and the possibility for the procuring entity to not request bid security for women-led businesses. The TA and education initiatives complementing the public market quotas for female-led firms are expected to increase the effectiveness of the proposed decree and improve welfare outcomes.

11. **In the long run, supporting female-led SMEs can be expected to have second-order effects through the evolution of cultural norms, increasing access to credit markets, and empowering future generations of women.** Cross-country evidence in Sub-Saharan Africa based on the World Bank's Enterprise Survey points to the fact that female-led firms are more credit constrained than their male-led counterparts (Asiedu et al., 2013). Given that the lack of access to credit markets is one of the main constraints that firms face in developing countries (Beck and Demirgüç-Kunt, 2006; Nkurunziza, 2010), a support mechanism for female-led firms will likely contribute to the normalization of female entrepreneurship and lead to increased access to borrowing for coming generations. The latter will in turn likely cause an increase in welfare and a reduction in gender-based inequality.

Prior Action 4: To improve girls access to education, the Recipient has adopted a Ministerial Order establishing the right of girls to continuing education while pregnant and reinforcing their rights to be reintegrated into school after pregnancy for those who dropped out.

12. **While gender gaps in primary education enrollment have been significantly reduced over the past two decades, they remain high in the secondary and tertiary sectors.** These gaps are likely to be conducive to worse employment opportunities and detrimental to welfare. The female enrollment rate of girls in primary schools has grown from 58 to 88 percent while the enrollment rate for boys grew from 71 to 78 percent between 1999 and 2016 (IMF, 2019). However, large gaps persist in the secondary and tertiary education sectors. While only 10.3 percent of adult women completed secondary school, 26.5 percent of adult men did so in 2019 (UNDP, 2022). This disparity contributes to the gender wage gap and reduces employment opportunities for women. Reducing these gaps is likely to increase welfare and reduce gender-based inequalities.

13. **The persistence of gendered gaps in educational attainment in Senegal is linked to high levels of child marriage and teenage pregnancies.** Between 2010 and 2014, a joint study between the "Groupe pour l'Etude et l'Enseignement de la Population" (GEEP) and the United Nation Populations Fund (UNFPA) identified 1971 pregnancies among women attending Senegalese schools (GEEP & UNFPA, 2015). This figure is likely downward biased due to the persistency of a taboo around sexuality in Senegal (GEEP & UNFPA, 2015). The largest age group are girls between 16 and 17 with 45 percent of total teenage pregnancies. The second largest group is comprised of mothers who are between 13 and 15 years old with 31 percent of total recorded pregnancies. The third age group is made up of girls between 18 and 19 years old with 24 percent of total pregnancies (GEEP & UNFPA, 2015). Pregnancies have direct consequences on educational outcomes through decreased attendance (54 percent of pregnant girls leave school), and



increased holdback (39 percent of pregnant girls must retake a year). Furthermore, child marriage and precocious pregnancies are closely linked, and both have detrimental effects on welfare (Parsons et al., 2015). While in the sample considered in the study by GEEP and the UNFPA, most pregnant women were not married, married pregnant girls were less likely to reintegrate into schools after their pregnancies due to social pressures (GEEP & UNFPA, 2015).⁸³

14. **Policies allowing girls to remain in school while pregnant and facilitating their reintegration after their pregnancy are likely to be conducive to an overall increase in female educational attainment, an increase in labor force participation, and an overall decrease in poverty and inequality.** The current legal framework in Senegal is based on the “Cirulaire No. 004379” of October 2007 which excludes pregnant students from middle and secondary school and requires the student to provide a medical certificate to reintegrate into the school. This strict legal framework adds on to the detrimental effects faced by pregnant girls. In the health dimension, early and frequent pregnancies lead to greater risks of complications and morbidity (Prata et al., 2010). These direct health consequences can be translated into economic consequences as teenage pregnancies may lead to withdrawal from school and decreased labor force participation (GEEP & UNFPA, 2015; Koblinsky et al., 2012; UNFPA 2014). These reductions in educational attainment and labor force participation likely contribute to increased levels of poverty, increased exposure to economic shocks, and lower productivity for the current but also subsequent generations (Parsons et al., 2015). Thus, policies aimed at supporting the educational attainment of pregnant girls are likely to have positive effects on both welfare and inequality reduction in Senegal.

***Prior Action 5:** To improve the management of budgetary risks, the Minister of Finance has adopted an Arrêté defining measures and associated implementation modalities to provision for the fiscal risks quantified in its Fiscal Risks Assessments (FRA).*

15. **Enhanced risk management is expected to have indirect effects on wellbeing, by increasing investor confidence and reducing fiscal risks.** Strengthening debt management capabilities will support the efficient use of funds, improving risk management, and maximizing savings. These savings can be expended on goods and services where financing gaps exist, such as electricity infrastructure, which could in turn promote poverty reduction and shared prosperity. For example, 18.3 percent of the annual infrastructure investment gap could be financed from savings produced by better governance (World Bank, 2014). Lastly, improved transparency can also enable a greater business environment, improving investor confidence, and attracting much needed foreign capital (Gelos and Wei, 2002). Full debt transparency has also been shown to promote lower borrowing costs, increasing countries’ credit ratings. These in turn could induce a reduction in poverty and inequality through economic growth and allow for increases in public revenue and social spending (Transparency International, 2014).

***Prior Action 6:** To increase the efficiency of tax expenditures while protecting the poor and vulnerable, the Recipient has removed VAT exemptions on: (i) electricity consumption for households whose consumption exceeds the social tranche; (ii) non-medical services delivered in private healthcare institutions.*

⁸³ Strong regional disparities were recorded. In Ziguinchor, Sédhiou and Tamacounda about two thirds of pregnant women were married (GEEP & UNFPA, 2015).



16. **VAT exempt items are largely consumed by higher income households and are therefore a regressive and inefficient way of protecting the poor.** Exempt items are largely purchased by households at the top of the distribution, implying that most of the benefit of existing exemptions are captured by the top of the distribution. **Figure A.7** shows that the top decile consumes 30.9 percent of nationwide spending on exempt goods while the poorest decile consumes only 2.8 percent of exempt items, making exemptions regressive in absolute terms. Moreover, a significant fraction of the purchases made by poorer households are done in informal places, so poor households are unlikely to pay VAT regardless of whether these items are exempt. **Figure A.8** shows that 80.5 percent of purchases made by poor households would not be in informal places and, consequently, barely be affected after the elimination of tax exemptions. The combination of these facts illustrates that VAT exemptions are a very inefficient mechanism to protect the poor and vulnerable, leading to large levels of foregone revenue, which could have been more efficiently spent on pro-poor social programs.

Figure A.7. Percentage of nationwide spending on exempted products by consumption decile

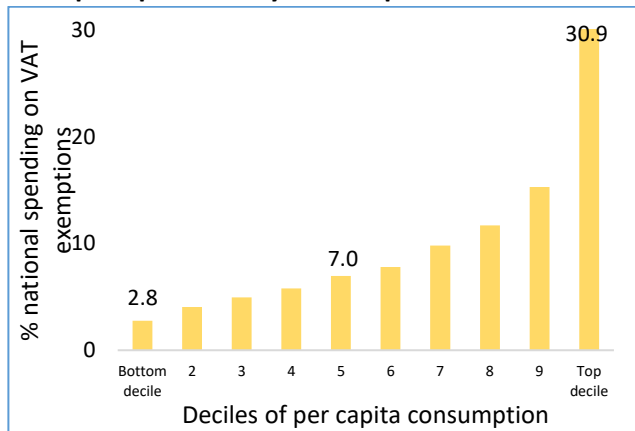
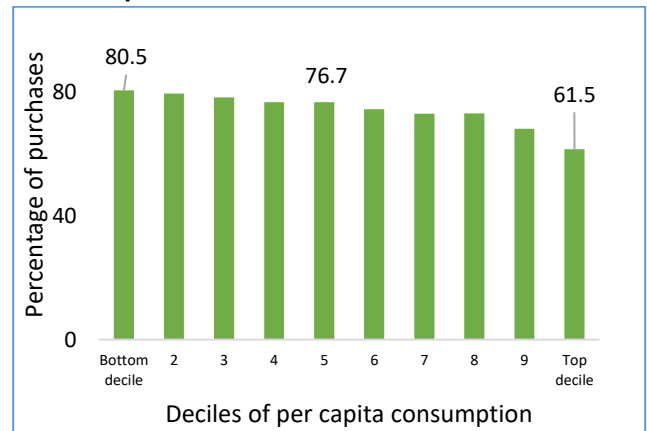


Figure A.8. Percentage of each decile spending in informal places



Source : World Bank calculations based on *Enquête de suivi de la pauvreté au Sénégal 2011* and *Enquête Harmonisée sur les Conditions de Vie des Ménages 2018*.

17. **The elimination of VAT exemptions on electricity consumption to households whose consumption exceeds the social bracket and on non-medical procedures in private healthcare institutions are not expected to have significant distributional impacts.** Senegal's government aims to increase tax revenue in 13.1 billion of FCFA by eliminating tax exemptions on two goods/services that are mostly consumed by the top of the income distribution. The first reform is to eliminate the VAT tax exemption applied to electricity consumption for households above the social tranche (defined as consumption above tranche 1 and 2). The second reform aims to eliminate the VAT tax exemption applied to non-medical goods and services purchased in private healthcare institutions. Using the 2018/19 household survey, a fiscal microsimulation model was constructed to simulate the impacts of the reform. The model accounts for the high levels of informal purchases, as well as for the potential cascading effects that result from VAT exemptions. Results from microsimulations of the reform are shown in Table A.4. Total VAT revenues are expected to increase by about 13.1 FCFA (0.086 percentage points of 2021 GDP), while the contribution of VAT taxes to poverty and inequality are not expected to change considerably between the baseline and the simulated policy scenarios. Under the status quo, poverty is 1.35 percentage points higher due to VAT, and inequality is 0.249 Gini points lower than in the absence of VAT. Comparing



these marginal contributions across the different scenarios, we observe that the elimination of exemptions imply negligible increases in poverty (less than 0.01 percentage points) and small reductions in inequality (between 0.001 and 0.013 Gini points).

Table A.4. Fiscal and Distributional Impacts of eliminating VAT-exemptions

	VAT in 2021 bn CFAF	VAT as % 2021 GDP	Increase in poverty in percentage points	Reduction in inequality in Gini points
Baseline VAT	901 ^a	5.89 ^a	1.35	0.246
Changes relative to baseline				
Electricity consumption of households outside social bracket	12.27	0.08	0.00	0.0136
Non-medical spending on hospitalizations (private health providers) ^b	0.86	0.006	0.00	0.0011
Total	13.13	0.086	-	-

Source: World Bank calculations based on *Enquête de suivi de la pauvreté au Sénégal 2011* and *Enquête Harmonisée sur les Conditions de Vie des Ménages 2018*. Notes: Column 3 can be interpreted as the increase in the poverty rate due to households having lower income after paying VAT. Column 4 can be interpreted as a reduction in inequality due to the VAT.

Notes: a) Projections obtained from WDI and IMF not directly simulated based on Tax GDP ratios of 2019 before COVID-19. b) The simulation assumes that non-medical spending in hospitalizations represent 15 percent of the total spending on hospitalizations.

18. Other important VAT tax exemptions remain to be considered for future policy reforms aimed at achieving the dual goal of increasing tax revenue while protecting the poor and vulnerable. Initial calculations suggest that VAT exemptions on tertiary education services provided by private institutions, imported luxury rice, meat, and poultry could be tackled in future policy reforms. Calculations suggest that eliminating those exemption could lead to increases in tax revenues of the order of 92.9 billion of FCFA (0.6 percent of 2021 GDP).

Prior Action 7: *To further strengthen the use of competition and improve the transparency of decision-making related to public procurement, the President has signed a Decree establishing the procedures for awarding agreements and licenses related to regulated activities associated with the Electricity Code and defining the provisions and procedures for (i) the processing of unsolicited bids, (ii) the processing of direct agreements, and (iii) the awarding of a contract by the contracting authority through a direct agreement procedure in the event of a negative opinion by the regulator.*

Prior Action 8: *To reduce costs and increase sector sustainability, the Recipient has adopted decrees that implement the Gas Code defining the legal and regulatory framework for investment in the midstream and downstream segments of the gas subsector.*

Prior Action 9: *To reduce routine flaring and venting emissions (CO2 and methane) occurring in the oil and gas production process, the Recipient has submitted to the National Assembly a supplemental proposal to amend the Environmental Code that specifies provisions to limit routine flaring and venting of*



natural gas, including the regime specifying exceptions and penalties for non-compliance"

19. **Despite the recent expansion in the provision of electricity in Senegal, access to electricity among households at the bottom of the expenditure distribution and in rural areas has lagged.** According to the latest household survey, access to electricity in Senegal was 73.3 percent in 2018/19 based on a conservative proxy.⁸⁴ While 46 percent of individuals in the poorest quintile had access to electricity in 2018/19, 94 percent of individuals in the richest quintile had access (**Figure A.9**). Moreover, there are large regional differences. Access to electricity was 98 percent in Dakar and 90 percent in other urban areas, but only about 55 percent in rural areas (**Figure A.10**). These disparities in living conditions are a serious constraint as they have important implications for other development outcomes such as health and nutrition, agricultural productivity, and girls' education, ultimately limiting poverty reduction.

Figure A.9. Access to Electricity by Monetary Welfare Quintile

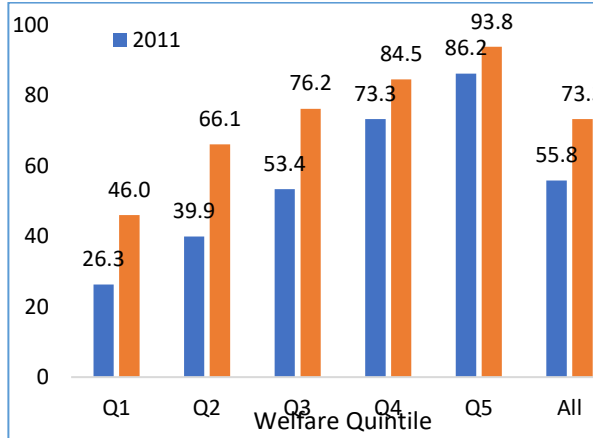
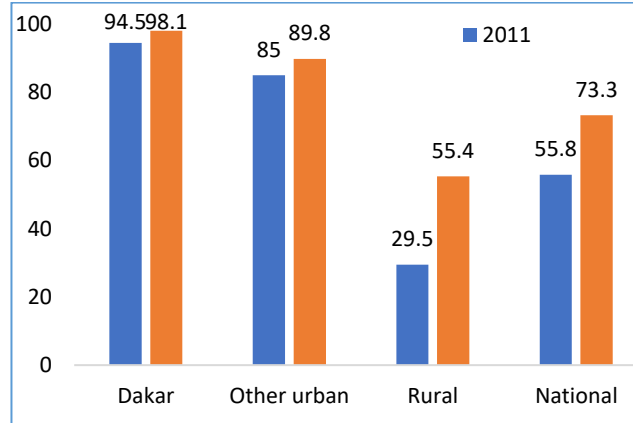


Figure A.10. Access to Electricity by Area of Residence



Source: World Bank calculations based on *Enquête de suivi de la pauvreté au Sénégal 2011* and *Enquête Harmonisée sur les Conditions de Vie des Ménages 2018*.

20. **The cost of electricity in Senegal is high with respect to its regional peers.** Average retail tariffs in Senegal (17.6 USc/kWh) are higher than the global average and higher than in regional peers, such as Cameroon (13 USc/kWh), and Ghana (13 USc/kWh).⁸⁵ The cost of electricity in Senegal is 2,421.1 percent of its per capita income; compared with 1,308.8 percent in Morocco and 994.2 percent in Vietnam (World Bank, 2020g). High costs in Senegal are explained by the fact that electricity generation relies on heavy fuel oil.

21. **Actions under Prior action 7 and 8 are aimed at reducing the cost of supply than if projects were procured on a negotiated basis, and hence lower the need for subsidies for the sector and/or limiting the need for tariff increases.** The Electricity Code adopted in 2020 created a legal basis in the sector for negotiated deals, unsolicited proposals, and unlimited State ownership in Independent Power Producers (IPP) that did not previously exist. In doing so, it does not provide the required checks and balances to

⁸⁴ This indicator considers individuals connected to the electricity network directly or through their neighbor only.

⁸⁵ World Bank GovData360. Price of Electricity, US Cents per Kwh (DB16-20 Methodology).



ensure confidence in decisions in the sector. The proposed measures under PA7 strengthen the use of competitive procurement and enhance the transparency of decision-making, thus ensuring that overpriced long-term Power Purchase Agreements are avoided, which will ultimately reduce the cost of electricity, with potential positive direct impacts to households. Moreover, lower electricity costs will have indirect impacts on welfare through higher private investment, which could lead to higher employment. Similarly, implementing decrees for the new gas code (PA 8) define the planning, regulation, and institutional arrangements of both midstream and downstream segments, which are critical instruments forming the gas-to-power strategy and investment program. These implementing decrees will contribute to reducing costs and ensuring the sustainability of the sector.

22. **Reducing the cost of supply will reduce the need for electricity subsidies currently in place aimed at protecting households.** As shown in Figure A.11, electricity subsidies account for 1.4-1.9 percent of disposable incomes of the bottom 40 percent of the income distribution, thus providing an important transfer to vulnerable households. However, more than 50 percent of these subsidies benefit the top two deciles of the income distribution, making them a very inefficient mechanism to protect the poor (Figure A.11). Thus, any savings on electricity subsidies would improve the fiscal position of the Government, and open fiscal space for improved social services and an expansion in electricity coverage to poorer populations.

Figure A.11. Relative incidence of electricity subsidies for connected households, 2022

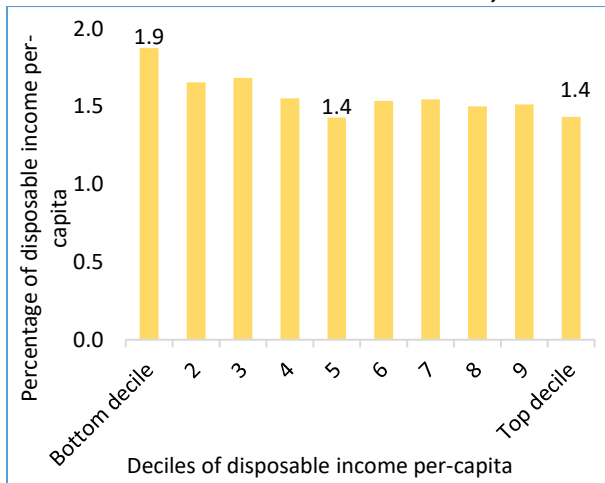
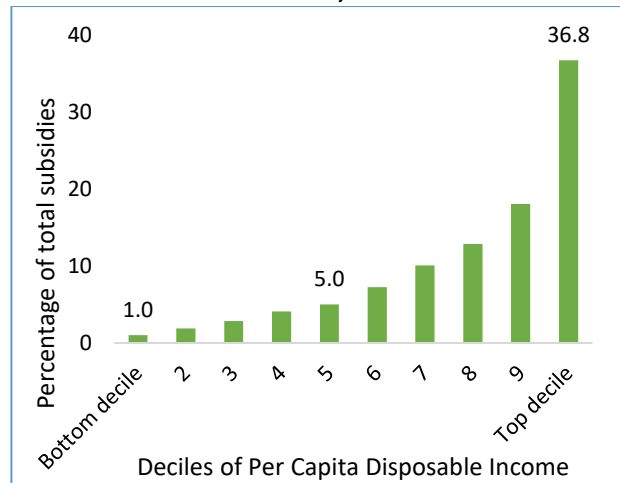


Figure A.11. Absolute incidence of electricity subsidies, 2022



Source: World Bank calculations based on *Enquête Harmonisée sur les Conditions de Vie des Ménages* 2018. The model nowcasts disposable income and electricity consumption of 2022 using household survey data from 2018-19. Subsidies by kWh use tariffs and cost of electricity supply that were in place in 2022. Figure A.12 takes into account the direct subsidies that households receive for their electricity consumption plus the indirect effect of subsidies in the production sector through prices.

23. **Beyond reducing costs, greater competition and transparency supported under this reform could lead to improvements in the quality of electricity service delivery is a significant challenge in Senegal.** Electricity services are unreliable, as power outages and poor service delivery are a common phenomenon (World Bank, 2015). This affects households and firms, reducing their productivity, but it also has impacts on children’s ability to learn, and the delivery of key social services, including health and education. In fact, recent evidence for Senegal finds that households and firms are willing to pay a



premium over current tariffs for high-quality electricity service without outages. However, marginal service improvements lead to much lower willingness to pay than for uninterrupted service, suggesting that, for households and firms, any increase in electricity tariffs must be accompanied by substantial quality improvements (Deutschmann et al, 2021). To the extent that the proposed reform efforts strengthen the independence of the electricity sector regulation and provide a more transparent framework for negotiated deals, there could be an associated improvement in service delivery.

24. **Finally, efforts to curtail flaring and venting (Prior Action 9) are expected to have positive impacts on human health and household welfare.** Several studies provide site-specific or engineering-based results that demonstrate that flaring produces carbon monoxide, nitrogen oxides, particulate matter, and volatile organic compounds. These are all pollutants that have an unambiguously negative impact on human health such as asthma and leukemia (Maji et al., 2019; Tang et al., 2020, Environmental Protection Agency, 2018, Kindzierski, 1999). In fact, recent evidence from North Dakota finds a causal link between natural gas flaring and human health damages, with higher flaring leading to greater respiratory-related hospital visits in people 60 miles away from oil and gas fields (Blundell and Kokoza, 2022). Second, flaring can also cause negative local effects such as terrestrial acidification, which in turn leads to lower agricultural productivity, which can be significant for poor agricultural households. For instance, numerous studies in the literature have described the negative effects of flaring in the Niger Delta (e.g., Ajugwo, 2013; Anomohanran, 2012; Dung et al., 2008; Edino et al., 2010; Giwa et al., 2014; Giwa et al., 2019; Ite & Ibok, 2013), where flaring occurs close to communities. Finally, to the extent that flaring contributes to climate change, households will suffer damage to their labor and agricultural productivity due to heat and disease and are at greater risk of natural disasters (Fawole et al, 2016). As such, efforts to curtail flaring and venting are expected to have positive social impacts through improved health and higher productivity in the medium to long term. The country's systems to enhance positive effects and manage potential adverse effects are adequate as the relevant institutions have the technical capacity in-house and TA from Power Africa to support the gas sector. The planned revision and adoption of the Environmental Code curbing the routine flaring and venting of natural gas should help manage the potential adverse effects.

Prior Action 10: *To operationalize the PPP legal and institutional framework, the Recipient has issued the ministerial orders regulating the use of transparent and competitive procurement processes for the selection of private partner(s) for PPP contracts in accordance with both the PPP law and the application decree of 2021.*

25. **Operationalization of the PPP legal and institutional framework is not expected to have poverty and social impacts in the short term but could have positive indirect effects on wellbeing in the medium to long term, by mobilizing private investment, and leading to higher employment.** The proposed operationalization of the PPP legal and institutional framework is not expected to have immediate impacts on investment, employment, or productivity growth, but could potentially lead to these effects in the medium to long term. New PPPs to invest in digital development and fiber assets; roads and urban transport; water and sanitation; solid waste management; urban infrastructure and housing; agricultural infrastructure; healthcare; and education have the potential to improve service delivery which could ultimately have positive poverty and social impacts in the medium to long term. For instance, a recent evaluation of a PPP aimed at promoting development in Brazilian urban slums found that the PPP



improved labor market outcomes, such as entrepreneurship and income; and socio-psychological outcomes, such as self-efficacy and optimism/positivity (Pongeluppe, 2020).

26. **However, the evidence on the poverty and social impacts of PPP projects is mixed.** A recent review of the evidence found only mixed support for improvements in total factor productivity or quality, coverage, and affordability (Fabr e and Straub, 2019). For education, micro-level studies shows that PPPs have the potential to increase enrollment and respond to a growing demand for education (see for instance Barrera-Osorio et al, 2020 on Uganda) but that their impact on educational outcomes appears to depend greatly on the institutional details and the scale of the programs considered. Moreover, PPPs can lead to poorer or low-ability students being left behind in public schools or attending lower-quality private schools without peers from better-educated and more affluent households (MacLeod and Urquiola 2013). Finally, there is inconclusive evidence of an impact of PPPs on health service utilization, the quality of services, patient satisfaction and health-related outcomes.

27. **Positive impacts are most likely if PPP arrangements are grounded in competition and transparency principles.** Competition is a crucial element in reducing the cost of infrastructure to a procuring authority (Broms et al., 2019). Advocating competition within procurement does not only benefit the public authority and the taxpayers, but it also creates a fair business opportunity for the private sector (Buzetto et al., 2020). Competitive procurement drives innovation and efficiency from business entities as it discourages anti-competitive behavior (Grandia and Meehan, 2017). Effective competition policy in PPP increases the propensity to attract the private sector to invest in PPP programs, freedom from corruption, recognition of intellectual property rights and ethical decision making (Sulser, 2018).



ANNEX 6: DETAILED MEASURES TO PHASE DOWN ENERGY SUBSIDIES

This annex summarizes recent reforms the GoS initiated to eliminate energy subsidies by 2025, their fiscal and poverty impact, and policy options to sustain the pace of their phase-out initiated in June 2022.

Context:

1. Despite their wider use since the Russia's invasion of
2. Ukraine, energy subsidies are costly and distortive, and their removal remains a priority. Energy subsidies have been a major policy tool used in Low- and Middle-income Countries to support access to energy, and their use has surged since the Russia's invasion of Ukraine. However, such subsidies are often poorly targeted, lead to inefficiencies and distortions in energy markets, and represent a significant cost to public budgets. Senegal subsidizes fuel through fixed prices on petroleum products and gas (28.5 percent average subsidy rate in 2022 compared to retail prices, 60 percent of subsidies spent on diesel and 15 percent on premium gasoline) and subsidizes electricity with a tariff structure that increases with consumption but is insufficient to cover the cost of provision. Energy subsidies represented 4.4 percent of GDP in 2022 (1.6 and 2.8 percent of GDP for electricity and fuel subsidies respectively), more than double its cost in 2021 prior to Russia's invasion of Ukraine (1.3 percent of GDP).

Energy subsidy reforms:

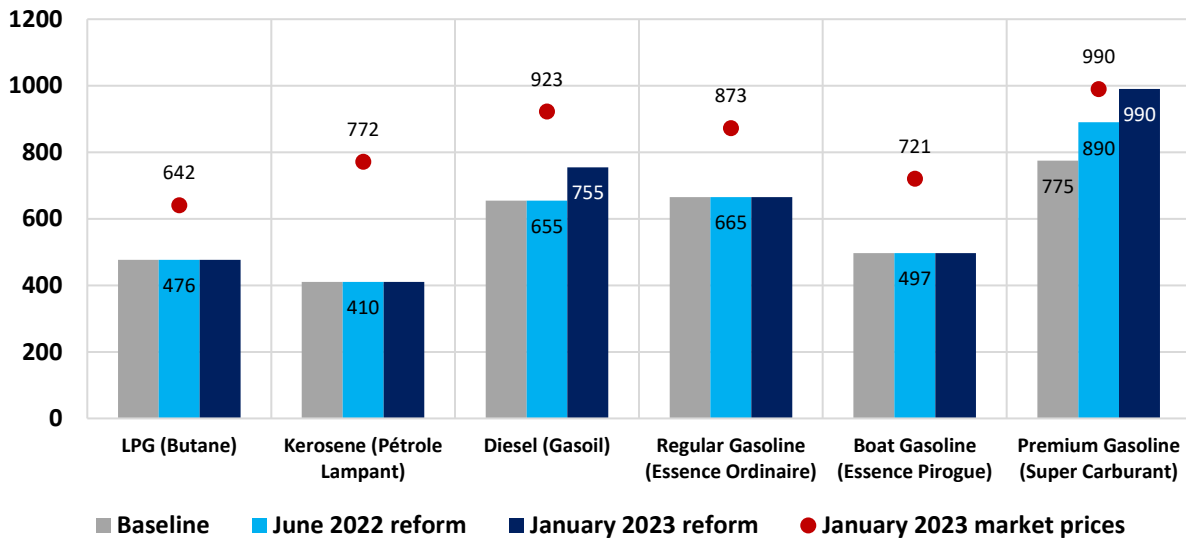
3. The Government started phasing out energy subsidies in 2022 with a 15 percent increase in the price of premium fuel in June 2022, and the removal of VAT exemptions for medium and high consumptions tranches of electricity in the 2022 supplemental budget, while shielding lower-income households in the social tranche.

On January 7, 2023, the Government announced a six-step roadmap (see Box 1) to gradually eliminate energy subsidies by 2025, and increased prices for both electricity and fuel as a first step of the roadmap.

- a. The prices of premium fuel and diesel increased by FCFA 100 per liter each. The price of diesel was set to FCFA 755 and that of premium fuel to FCFA 990, both prices remain below international market prices. It is important to notice that the reform came during a decline in international prices which also reduced the government's spending on fuel subsidies.
- b. On electricity, the Government adjusted tariffs as of January 1, 2023, while preserving tariffs paid by those consuming less than 150 kWh per billing period, i.e. 1,159,146 households or 48 percent of Senelec's total customers. The Government increased electricity prices across all other levels of consumption (low, medium, and high voltage) as follows:
 - Increase of 18.97 FCFA/kWh on low voltage (above 150 kWh), i.e., a 16.62 percent price increase on average (with higher increases for those consuming beyond the first tranche, as the first tranche was not affected by the tariff increase).
 - Increase of 22.79 FCFA/kWh on medium voltage, i.e., a 19.45 percent price increase on average.
 - Increase of 14.31 FCFA/kWh on high voltage, i.e., 16.91 percent price increase on average.



Figure A.13. - Retail prices by type of fuel (FCFA per liter and FCFA per kg)



Source: Staff computations and Ministry of Oil and Energy (January, 2023).

Note: Market prices refer to the value that consumers would pay in the absence of subsidies. It is computed using data on international prices and the regulated cost structure reported by the National Committee of Hydrocarbons on January 7 of 2023. LPG prices correspond to FCFA per kg while the rest of fuel products correspond to prices per liter.

Box 1 Senegal's Six-Step Plan for Energy Subsidies Reform

1. Upward adjustment of selected energy prices and measures to be taken to mitigate the impact of these increases on vulnerable households (starting January 1, 2023)

The goal is to keep overall energy subsidies within the 2023 budget envelope of 2.7 percent of GDP. The readjustment of electricity prices should result in avoided subsidy of FCFA 99.7 billion (0.6 percent of GDP) for the government budget, while the increase in fuel prices is expected to reduce the fuel subsidy need by FCFA 158.5 billion (0.9 percent of GDP)

2. Review the fuel pricing formula and electricity rate structure (by end of 2023)

Fuel: The Government will review the current fuel pricing formula to ensure that prices at the pump reflect developments in international markets. The review will address: (i) the different elements of the price structure; (ii) the reference price, a smoothing mechanism for adjusting prices to avoid large variations, and the frequency of price adjustments; and (iii) the composition and powers of the technical committee in charge of price setting.

Electricity: To reduce the need for subsidies in the electricity sector, the Government intends to i) revise the electricity tariff structure gradually eliminating subsidies and ii) complete a financial audit of Senelec by the end of 2023 to strengthen its financial situation.

3. Strengthen the cash transfer system (by end 2023)

This reinforcement will focus on: (i) the re-certification of the Single National Register (RNU) data for the 558,000 households already registered; (ii) the addition of 412,000 vulnerable households identified for the most part through community-based targeting; and (iii) the migration to digital payment of cash transfers.

4. Launch a communication campaign (first half of 2024)



The Government will launch an effective communication campaign to increase public support. This campaign will inform the public of the disadvantages of the existing subsidies and the benefits of the reform.

5. *Reduce the subsidy envelope to no more than 1 percent of GDP (2024 budget)*

Fuel: The prices of premium fuel and diesel will be adjusted in accordance with the new price adjustment mechanism and the digital cash transfer system will be used to mitigate the impact on vulnerable households.

Electricity: Electricity tariffs will be adjusted, and the tariff schedule modified based on the results of the study conducted in collaboration with the World Bank. At the same time, the Government will publish the results of the study of the formula used to calculate the RMA and implement measures to strengthen Senelec's efficiency.

6. *Eliminate subsidies (by 2025)*

Fuel: The price adjustment mechanism will be fully applied, ensuring that premium fuel and diesel prices follow international price trends. Vulnerable households will be partially compensated by cash transfers set up within the RNU.

Electricity: Electricity subsidies will be removed, and vulnerable households will be protected either through cash transfers under the RNU or through cross-subsidization by other consumers.

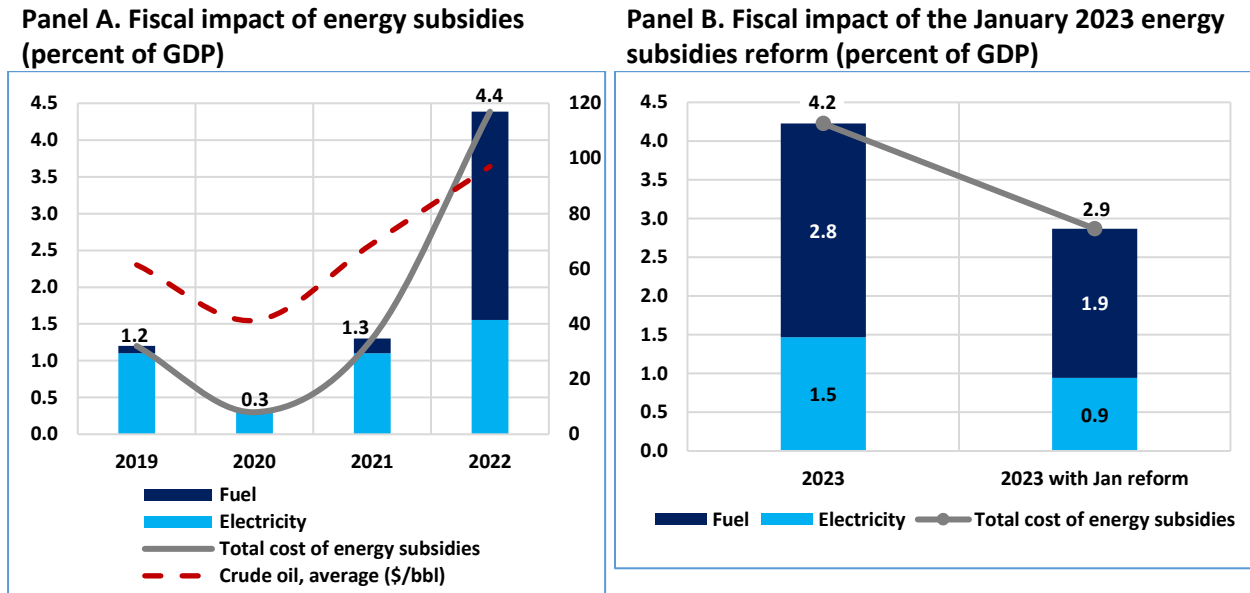
Fiscal impact of the reform:

7. **Energy subsidy spending increased to 750 billion (4.4 percent of GDP) at the end of 2022 compared to FCFA 199 bn (1.3 percent of GDP) in 2021.** Fiscal deficit reached of 6.7 percent of GDP in 2022, compared to an initial budget of 4.8 percent of GDP, mainly driven by a higher-than-anticipated cost of energy subsidies. Energy subsidies were projected to increase to 2.7 percent of GDP in the 2022 supplemental budget law (LFR 22), compared to 0.9 percent of GDP in the initial 2022 budget (LFI 22), but increased to FCFA 750 bn (4.4 percent of GDP) at the end of 2022 compared to FCFA 199 bn (1.3 percent of GDP) in 2021. Electricity subsidies amounted to FCFA 266 bn (1.6 percent of GDP) in 2022 compared to FCFA 169 bn in 2021 (1.1 percent of GDP) and have, before the Russia's invasion of Ukraine, accounted for the largest share of energy subsidies. Fuel subsidies have seen the biggest increase going from FCFA 31 bn (0.2 percent of GDP) in 2021 to FCFA 484 bn (2.8 percent of GDP) in 2022 as international oil prices spiked in 2022. Without any measures, energy subsidies were estimated at around FCFA 805 billion (about 4.2 percent Year of GDP) in 2023, of which FCFA 525 bn (about 2.8 percent of GDP) for fuel and around FCFA 280 bn (about 1.5 percent of GDP) for electricity.

8. **By phasing down energy subsidies, the Government is expected to save a total of FCFA 258.2 billion (1.4 percent of GDP) in 2023.** These savings represent FCFA 100 bn from lower compensation to Senelec (0.5 percent of GDP) and FCFA 158.5 bn (0.9 percent of GDP) for fuel. With these savings, the Government intends to invest in infrastructure and social protection programs to cushion the impact of energy price increase on vulnerable households through increased cash transfers to the poorest households and subsidies to mass transportation. Despite these efforts, subsidies will remain a significant fiscal burden (close to 3 percent of GDP) until the gas-to-power strategy is successfully rolled out, and sector governance reforms are implemented to reduce production costs.



Figure A.14 - Fiscal Impact of Energy Subsidies



Source: GoS and staff calculations.

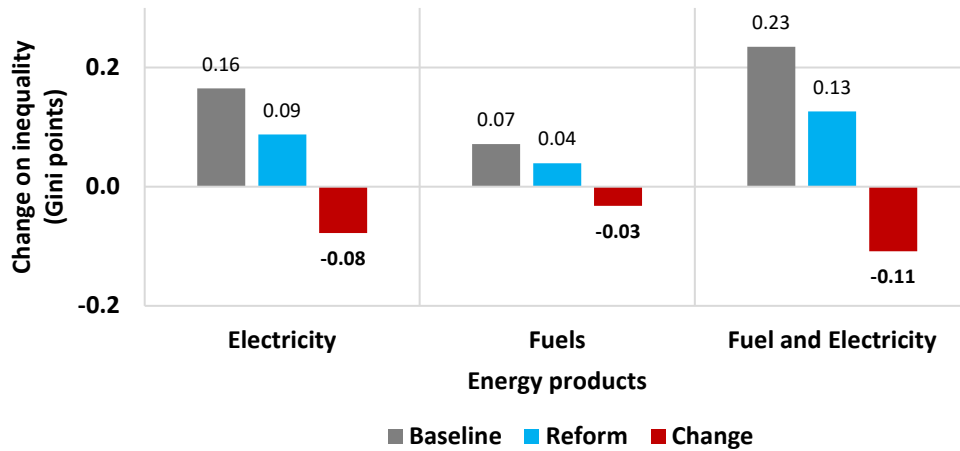
Note: Energy subsidies refer here to fuel and electricity subsidies. Panel B indicates the provisional fiscal impact of energy subsidies for the fiscal year 2023 with or without the January 7 reform.

Poverty and inequality impact of the reform

9. The removal of subsidies is expected to reduce inequality by 0.11 Gini points, with the largest impact coming from the electricity subsidy removal. The electricity reform had a higher impact on reducing inequality because the largest tariff increases were directed to high-consumption households, while low-consumption households (consumer that belong to the social tranche) did not experience changes in their tariffs. The reduction of electricity subsidies alone reduced the marginal effect of electricity subsidies on inequality by 0.07 Gini points. The impact of fuel subsidies on inequality was mostly through its indirect effects on prices of fuel-intensive goods, and therefore it was lower (reduction of 0.03 Gini points) as the indirect effects are evenly spread along the income distribution. Taken together, the reform reduced the effect of subsidies on inequality by 0.11 Gini points, equivalent to almost half of the pre-reform effect of subsidies on inequality (0.23 Gini points). It should be stressed that the remaining energy subsidies are still estimated to increase inequality by 0.13 Gini points as they benefit more the top of the income distribution (34 percent of the electricity and 38 percent of fuel subsidies still go to the top income decile after the January 6 reform).



Figure A.15 - Effect of subsidies and VAT of energy products on inequality

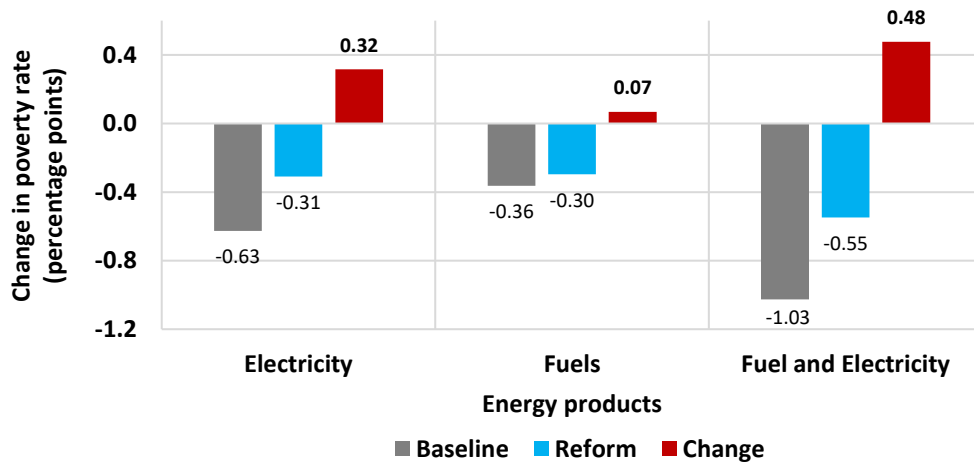


Source: Own calculations based on EHCVM 2018/9 and policy parameters for January 2023.

Note: The Gini coefficient in Senegal using disposable income is 37.89. The figure shows how the disposable income inequality change due to subsidies and VAT taxes paid for energy products before and after the reform. For example, positive values in the baseline scenario for electricity indicate that inequality increases after considering the subsidies/VAT related to electricity consumption. The red bar (change) corresponds to the difference between the baseline and the reform scenario.

10. **By increasing energy prices, the removal of subsidies is expected to increase poverty by 0.52 percentage points, equivalent to nearly 90,000 new poor households.** Most of the increase in poverty is due to the elimination of electricity subsidies, which accounts for a 0.21 percentage point increase in the poverty headcount rate, as some households with incomes just above the poverty line will see increases in their tariffs. The increase in VAT paid due to higher fuel and electricity prices has minimal impacts on poverty as VAT on electricity or fuel are still largely paid by the top decile (65.6 percent and 43.5 percent of total VAT paid on electricity and fuel respectively). It should be stressed that this simulation does not take into account social assistance measures announced in the government roadmap as these have not yet been implemented.

Figure A.16 - Effect of subsidies and VAT of energy products on poverty





Source: Own calculations based on EHCVM 2018/9 and policy parameters for January 2023.

Note: The predicted headcount poverty ratio (National poverty line) in Senegal for 2022 is 38.5 percent. This number differs from the MPO 2023 (World Bank 2023) because it uses projected disposable income rather than consumption. The figure shows how the disposable income poverty changes due to subsidies and VAT taxes paid for energy products before and after the reform. For example, negative values in the baseline scenario for electricity indicate that poverty declines after considering the subsidies received and VAT paid for electricity consumption. The red bars show the difference between the baseline and the reform scenario; therefore, positive values imply the reform increased poverty.

Social Assistance measures

11. **Additional fiscal gains from the reform should be used to mitigate adverse effects on poverty by improving existing social protection systems and providing targeted support to vulnerable households and could make the impact of the reform poverty neutral.** The Government has announced repurposing fiscal gains from energy subsidies removal towards social protection programs, via (i) cash transfers to poor households (ii) strengthening cash transfer systems and (ii) subsidies to transporters. Measures already implemented to shield the poor from subsidy removal include keeping electricity tariffs unchanged for the lowest consumption bracket (less than 150 kWh).

Future Policy options:

12. The Government should maintain the pace of energy subsidy reforms to ensure transparency and broad support. Keeping to its announced subsidy removal roadmap, strengthening social protection programs with fiscal gains from the reforms, as well as structural measures on the electricity, fuel, and renewable energy sectors will be essential to ensure a sustainable, efficient, and equitable energy market.

Social Protection reform options

13. **In response to the removal of energy price caps, the Government can leverage the adaptive safety net system that has been developed since 2013 to rapidly support vulnerable households in the event of oil price shocks.** The foundations of a well-functioning social protection system are in place, including i) a RNU covering 33 percent of the population ii) a nationwide Cash Transfer program covering 18 percent of the population, with transfers fully covered by the domestic budget (about US\$50 million/year), iii) a grievance redress mechanism (GRM), iv) decentralized delivery capacity, v) the ability to deliver digital payments in response to shocks as shown through the implementation of the exceptional cash transfer operation in 2022.

14. **The social protection system still needs consolidation to secure its technical and institutional viability.** Key reforms agreed with the Government and supported by the DPO for Equitable and Resilient Growth are: (i) expanding the RNU to one million households, covering not only the entire poor population but also the vulnerable. The registry was institutionalized through a Presidential decree in 2021, making it the mandatory targeting tool for social programs across sectors. (ii) Anchoring the cash transfer program (PNBSF) in law and updating the mandate of the DGPSN to clarify its role, facilitate coordination within MDCEST, and provide a regulatory framework to the main social program in the country.

Fuel reform options

15. **Fuel subsidies should move to a formula-based calculation to improve predictability and transparency. The reform on fuel subsidies implemented to date has been limited to increasing prices for gasoline and diesel.** In particular, the reform increased the price of premium gasoline from FCFA 890 to 990 and the price of diesel from FCFA 655 to FCFA 755. The estimated subsidy rate decline is from 10



percent to 0 for premium gasoline (super carburant) and from 29 percent to 18 percent for diesel (gasoil). Other fuel subsidies for *Pétrole lampant*, *butane*, or gas for pirogues have not been changed. A transparent and simplified price structure based on international fuel prices is warranted given the complexity of the current fuel subsidy systems and resulting uncertainty in fuel costs for firms, reducing investments.

Electricity reform options

16. **Subsidy reform should not only focus on increasing tariffs, but also on making the tariff structure more just and improving the supply and quality of services.** In the past, electricity intensive sectors have suffered from electricity disruptions. Expanding energy access is a key driver of long-term economic transformation, job creation and human development. Short-run impacts include social benefits, such as lighting for reading and enhanced security. Those benefits are particularly crucial objectives from the perspective of women and girls in rural areas who bear a significant burden because of the lack of energy access. Moreover, with electrification, businesses can improve their productivity and new opportunities arise for micro, small, and medium-sized enterprises. There is also a need to reform the tariff structure, which has been unchanged since 2008. A more transparent and progressive tariff structure that includes means-testing and phase-out would improve the targeting of subsidies and reduce the fiscal burden. Furthermore, education and health outcomes often significantly improve through the electrification of schools and clinics.

17. **The "gas to power" strategy could potentially eliminate the need for tariff compensation in the long term (after 2026 when domestic gas becomes available).** The GoS has embarked on an ambitious plan to create the condition for cheaper, more reliable electricity and contribute to addressing climate change. Provided that the sector also follows other needed reforms and new generation options are developed following a least-cost approach.

18. **While costs might decrease in the medium to longer term, concrete measures are needed to improve the financial sustainability of the energy sector and Senelec, in particular.** Financial sustainability of the power sector remains the key determinant for improved reliability, increased access to affordable electricity, and decrease the need for tariff compensation in the short to medium term. Government arrears to Senelec, and thus Senelec arrears to independent power producers (IPPs) and fuel supplier, reappeared rapidly in 2022. Senelec payment difficulties are linked to high global fuel prices, which significantly increased the costs of electricity supply and drove up the tariff revenue shortfall. The current size of the tariff revenue shortfall is large and if not addressed could undermine the long-term reform strategy of using gas for power generation and renewable energy by deterring potential investors from the private sector.

Renewable energy reform options

19. **The change in generation mix is key to turning around the financial situation of the sector, and hence delinking the sector's dependence on imported fuels, bringing down the costs of supply and the need for subsidies.** Senelec is progressing with plans for importing hydropower and for converting all fuel oil generation to natural gas as well as to build new gas-fired generation. Substantial gas discoveries have been made off the coast of Senegal with the Sangomar, Tortue and Yakaar/Teranga reserves suitable to deliver gas for domestic power generation. While there is still uncertainty as to when the natural gas resources will be available to the power sector, and how the gas would be exploited, analysis by the World



Bank shows their effective use could drive down generation cost enough to eliminate the need for sector subsidies in the medium term.

20. **The Government should clarify its strategy to diversify the energy mix in the medium to long term towards lower carbon generation, in addition to gas-fired power generation.** Options include solar and wind, leveraging on domestic resources of natural gas in power generation, and taking advantage of opportunities arising from regional interconnections to access low-cost hydroelectricity. The Senegalese Agency for Renewable Energy (*Agence nationale pour les énergies renouvelables, ANER*) promotes the use of renewables in the country and is particularly involved in off-grid electrification programs involving solar solutions. While institutional capacity of the energy sector entities is generally adequate, overlapping roles and responsibilities across several agencies, including MPE, ASER and ANER, must be addressed to avoid duplications institutional obstacles to electrification efforts. The Bank is supporting the GoS to radically change its energy mix from a sector that was by 83 percent reliant on expensive, imported and carbon intensive HFO and diesel generation in 2018, to a sector that has a mix of lower cost and lower carbon renewable energy (31 percent) and natural gas (54 percent), with the remainder coming from the already existing Sendou 125MW coal-fired power plant (15 percent) by 2026⁸⁶.

⁸⁶ The forecast energy mix is based on World Bank team's economic investment and dispatch model developed for the purposes of the first DPF series. The latest LCDP from February 2022 forecasts a much higher share of natural gas in the energy mix (around 78 percent) and a lower share of renewables (around 20 percent) and only a marginal share of coal power generation. The marginal share of coal power generation in the country's energy mix is in line with the World Bank's latest forecast, while according to the World Bank's analysis the share of renewable generation in line with least-cost planning and development remains around 30 percent.